S. HRG. 98-1148
Part 2

FRINGE BENEFITS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

July 26, 27, and 30, 1984

Part 2 of 2

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
39-707 O WASHINGTON : 1985

5361-30

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon	RUSSELL B. LONG, Louisiana
WILLIAM V. ROTH, Jr., Delaware	LLOYD BENTSEN, Texas
JOHN C. DANFORTH, Missouri	SPARK M. MATSUNAGA, Hawaii
JOHN H. CHAFEE, Rhode Island	DANIEL PATRICK MOYNIHAN, New York
JOHN HEINZ, Pennsylvania	MAX BAUCUS, Montana
MALCOLM WALLOP, Wyoming	DAVID L. BOREN, Oklahoma
DAVID DURENBERGER, Minnesota	BILL BRADLEY, New Jersey
WILLIAM L. ARMSTRONG, Colorado	GEORGE J. MITCHELL, Maine
STEVEN D. SYMMS, Idaho	DAVID PRYOR, Arkansas
CHARLES E. GRASSLEY, Iowa	

RODERICK A. DEARMENT, *Chief Counsel and Staff Director*
MICHAEL STERN, *Minority Staff Director*

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

BOB PACKWOOD, Oregon, *Chairman*

JOHN C. DANFORTH, Missouri	SPARK M. MATSUNAGA, Hawaii
JOHN H. CHAFEE, Rhode Island	LLOYD BENTSEN, Texas
MALCOLM WALLOP, Wyoming	MAX BAUCUS, Montana
WILLIAM L. ARMSTRONG, Colorado	RUSSELL B. LONG, Louisiana

Communications

	Page
Abow Companies	1
Academic Financial Services Association	2
Acme Markets	3
Addison Products Company	4
Ad Hoc Committee For a Responsible Tax Policy Employee Benefits Division	5
Aetna Life & Casualty	19
A & H Administrators, Inc	30
AID Insurance Companies	31
City of Aiken, South Carolina	32
Air Line Pilots Association, National Retirement and Insurance Committee	34
Aircap Industries, Inc	39
Allegheny Ludlum Steel Corporation	43
Aluminum Company of America	47
Amalgamated Clothing and Textile Workers Union	58
American Academy of Actuaries	62
American Benefit Plan Administrators, Inc	74
American Business Insurance Services, Inc	81
American Compensation Association	83
American Dental Hygienists' Association	85
American Fidelity Assurance	94
American Institute of Certified Public Accountants	101
American Medical Association	113
American of Martinsville	122
American Mirror Company	123
American Psychiatric Association	125
American Society of Mechanical Engineers	127
American Society for Personnel Administration	133
AT&T	136
American Trucking Associations, Inc	149
American Information Technologies	156
Anderson, Kenneth N., M.D	159
Andrews, Emily S	161
Arrowood	206
Associated General Contractors of America	208
Associated Insurance Service, Inc	212
Associated Health Systems	214
Associated Specialty Contractors	220
Association of Urban Universities	229
Atlantic Planning Consultants, Inc	237
Atlantic Richfield Company	239
Autobody Craftsman Association	256
Badische Corporation	260
Baker, Connie	263
The Town of Balkan	265
Ballard Brothers Electric Company	266
Ball Corporation	267
Balzer Companies, Inc	270
Banner Life Insurance Company	271
Barclays American Corporation	275
Bath Iron Works Corporation	277
Beacon Oil Company	279
Behar & Associates	281
Bell Atlantic	289
Bell Communications Research	296
Bizer, Mier, M.D	298
Benchcraft of Hickory	300

	Page
Benefit Actuaries, Inc	302
Benefits, Inc	304
Bennett Motor Company	306
Boesche, McDermott, & Eskridge	307
Boeing Company	310
Boley, Featherstone, Huffman & Deal Co	317
Booke & Company	308
Brabham, Jack B	320
Brannock, Ronald D	321
Brassine, William F., M.D	326
Brockway, Inc	328
Brown & Williamson Tobacco Corporation	332
Bucyrus-Erie Company	335
Business Men's Assurance	336
Burton Rubber Processing, Inc	340
Business Counsel of New York State	341
Business Planning, Inc	343
Canyon Creek Country Club	346
Carpenter Reserve Printing	347
Carolina Medicorp Inc	350
Catholic Cemeteries Association	352
Catholic Medical Center of Brooklyn and Queens, Inc	354
Caudill Seed, Inc	355
CBS/Fox Company	357
Central Arkansas Library System	361
Central Bank of the South	363
Central Insurance Companies	369
Central States of Omaha	370
Cessna Aircraft Company	372
Chamber of Commerce of the United States	378
Charleston Area Medical Center	382
Chatham Manufacturing Company	387
Chemical Financial Corporation	389
Chemical Waste Removal, Inc	394
Chevron Corporation	396
Chloride Incorporated	406
Choctaw	407
Christian Reformed Church in N.A	411
Chollet, Deborah J., Ph.D	413
Drs. Cherry, Long & Scott	442
Ci	446
Ciba-Geigy Corporation	443
Clean Linen Service, Inc	456
CNA Insurance Companies	460
Coca-Cola	476
Coca-Cola Company	477
Coats, Glenn B	481
Collins & Aikman	483
Columbus Jack Corporation	485
J. T. Comer & Associates, Inc	486
Commercial Electronics Operations	489
Commonwealth of Virginia	1430
Communications Instruments, Inc	499
Communitronics Corporation	501
Community Federal Savings	504
City of Concord	506
Concord Telephone Company	508
Consumers Power Company	511
Connecticut General Life Insurance Company	517
Consolidated Planning Corporation	529
Constance Bultman Wilson Center	530
Continental Bank	532
Country Boy Waterbeds, Inc	537
Cousar Associate, Inc	538
Cooper, Carry & Associates, Inc	540
Copeland, Roberta	542

	Page
Corrigan Dispatch Company	544
Corroon & Black	545
Croda Inc	547
Cuddy Farms, Inc	550
Cuddy Foods, Inc	548
Cullen Bank	552
Cumberland Museum and Science Center	554
Cutting Tools Inc	555
City of Cuyahoga Falls	557
Daniel Boone Clinic	559
Data Card Corporation	561
David N. Price Inc	578
Delta Dental Plans Association	583
DeMark, Kolbe & Brodek, S.C	597
Derby Cap Manufacturing Co., Inc	599
Diamond Crystal Salt Company	600
Digital Equipment Corporation	601
Dill, Joyce & Thresher	604
Dillon Companies, Inc	606
Diversified Group Brokerage of Massachusetts, Inc	608
Dominick, Fletcher, Yielding, Wood & Lloyd, P.A	609
Donan Engineering, Inc	611
Doug Paine & Company, Inc	613
Dover Textiles	614
Dreckman Dental Laboratory, Inc	616
Dresser Industries	617
Dunham Manufacturing Company, Inc	622
Durham Sun	624
Ear, Nose, Throat & Allergy Clinic,, Ltd	625
Easter Machine & Manufacturing Co	626
Equitable Insurance Companies	627
E-Systems	630
Ewen, MacKenzie & Peden	633
Ex-Cell-O Corporation	635
Fairfield Electric Cooperative, Inc	639
Family Guidance Center	641
Farm Bureau	643
Farmers & Merchants Bank	647
Federal Paper Board Company, Inc	649
Federation of American Hospitals	651
Fellowship Urban Outreach	663
Figgie International Inc	664
First National Bank	666
Fitness Management Corp	674
Fitzgerald, Karen W	676
Florida Power Corporation	677
Foodcraft Equipment Co	678
Ford Construction Company	680
Foster, Lewis, Langley, Gardner & Banack	681
Fox Jacobs	683
Fowler, White, Gillen, Boggs, Villareal and Banker	685
France Stone Company	687
Franklin and King	688
Fuller and Company	690
Fultz, Howard L	694
Garcia, Stephen T	695
Gardinier Inc	696
Gast Manufacturing Corporation	698
Gateway Realty	699
Gautreau, J. Errol	700
Gemcraft, Inc	701
General American Life Insurance Company	704
Georgia Association of Petroleum Retailers, Inc	708
Glanz, Marian R	710
Goetz Services, Inc	711
The Golden 1	712
Grange Mutual Companies	715

	Page
Greater Europe Mission	719
Greenbaum Doll & McDonald	721
Greeneville Christian Academy	731
Groman Corporation	733
Guarantee Reserve Life Insurance Company	741
Gulfstream Aerospace Corporation	745
Hardee's Food Systems, Inc	748
Harris Corporation	753
Hawkeye-Security Insurance Company	757
H. B. Fuller Company	759
Hendrix GMC Trucks, Inc	761
Henley Paper Company	762
Hibernia National Bank	764
Higgins, Timothy	775
Drs. Hill & Thomas	776
Hunt Tractor & Equipment Co., Inc	778
Hunter Marine Transport, Inc	782
Hutchinson and Associates, Inc	784
Independent Federation of Flight Attendants	795
Independent Insurance Agents	804
Information Management Services, Inc	805
Institute for the Study and Encouragement of Common Sense Economics	807
Intercontinental Hotels Corporation	809
Investment Counsel Company	811
Investor's Mortgage Service Co	813
Iowa Association of Business and Energy	814
Jacob, John E	816
Jennings, Robert B	819
John Hancock Mutual Life Insurance Company	821
Jones-Nance & Steinemen, Inc	822
JWT Group, Inc	823
Kearney & Treckler Corporation	829
Kelley Technical Coatings, Inc	832
Kemper Group	834
Key Trust Company of Florida	844
Kimball Area Public Schools	847
Kinetz, Kuhns, Byrd & Associates, P.S.C	848
Knox, W. Mark	849
Korczyk, Sophie M., Dr	851
KTVY	878
Langford, Norris M	879
Lavidge & Associates, Inc	881
League Insurance Companies	883
Lewisteel, Inc	890
Liberty Glass Company	892
Liberty National Bank and Trust Company	894
Lincoln National Corporation	896
Litton Industries, Inc	908
Loram Maintenance of Way, Inc	909
Louisiana-Pacific Corporation	910
Loyola Marymount University	912
Lynch, Charles A	1320
Mapes Piano String Company	915
Madison Medical Associates	916
Mark Products U.S., Inc	916
Martin Hayes & Company, Inc	922
Martin, Stephen A	919
Massachusetts Mutual Life Insurance Company	925
Maui Radiology Consultants	943
McKesson Corporation	945
McKinley Properties	953
McLean Trucking Company	955
Mechanical Reps, Inc	956
Medical Center Anesthesiologists	957
Merchants National Bank of Mobile	959
Merline, Thomas & Stuart	961
Metropolitan Insurance Companies	963

	Page
Michigan Automotive Parts Association	1529
Midwestern United Life Insurance Company	975
Miller, Frederick T	978
Miller, W. L	979
Milliken and Company	980
Milwaukee Painters Local Union	985
Minnegasco, Inc	986
Minnesota Power	992
Mische, Michael A	999
Missouri Bankers Association	1030
Mississippi Conference Group Insurance	1032
Mobile Area Chamber of Commerce	1034
Monarch Life Insurance Company	1036
Moore, James E	1039
Mutual Life Insurance Company of New York	1040
Morris, E. Lee	1047
Moses H. Cone Memorial Hospital	1050
National Association of Casualty & Surety Agents	1051
National Association of Private Psychiatric Hospitals	1053
National Association of Professional Insurance Agents	1059
National Automobile Dealers Association	1064
National Education Association	1070
National People's Action	1081
National Restaurant Association	1087
National Rural Electric Cooperative Association	1093
North Carolina Natural Gas Corporation	1104
North Charleston Sewer District	379
Nature Conservancy	1105
NCNB National Bank	1107
New England Mutual Life Insurance Company	1109
New Mexico Taxation and Revenue Department	1111
Nissan Motor Manufacturing Corporation, U.S.A	1115
NOMEC, Inc	1117
North Carolina Automobile Wholesalers Association, Inc	1120
North Dakota Farm Bureau	1122
Northeast Corridor Commuter Rail Authorities Committee	1143
Northwest Ohio Plastic Surgeons, Inc	1153
Oak Forest Country Club	1154
Oklahoma Bankers Association Insurance Trust	1155
Outboard Marine Corporation	1157
Owens Brush Company	1158
Packaging Service Corporation of Kentucky	1163
Pacific Mutual Life Insurance Company	1165
Pacific Telesis	1168
Peacock, James, W., Jr	1173
Peat, Marwick, Mitchell & Company	1175
Pennsylvania Lumbermens Mutual Insurance Company	1195
Pennzoil Company	1196
Pension Fund of the Christian Church	409
Perfection Finishers, Inc	1203
Petroleum Personnel, Inc	1205
Pfizer, Inc	1207
Phoenix Mutual Insurance Company	1212
Pilot Life Insurance Company	1218
Pine Hall Brick & Pipe Company	1220
Plan Administration, Inc	1231
Planters National Bank	1237
Prudential Insurance Company of America	1239
Plumbers Local 75	1240
Pope & Talbot, Inc	1242
Professional Insurance Agents Association of NY, NJ, and Connecticut	1243
Professional Insurance Agents	1248
Profit Sharing Council of America	1254
Providence Journal Company	1268
Provident Life and Accident Insurance	1270
Qualified Plans Services, Inc	1278
Quaker Oats Company	1280
QUINCO	1294

	Page
Radiology & Nuclear Medicine	1295
RBX Industries, Inc	1299
Rensselaer Polytechnic Institute	1301
Reynolds Aluminum	1302
Riverside Hospital	1308
Robbins Plumbing and Heating Contractors	1309
Robbins, Ronald F., D.D.S	1315
Robertshaw Controls Company	1310
Rollins College	1313
Rock Hill, South Carolina	1317
Roll Forming Corporation	1318
Ryan, John, James, M.D	1319
Salsbury Laboratories, Inc	1322
Sanneman, Everett H	1323
Schoo, Bernard J., M.D	1324
Sea Island Company	1325
Sealright Company, Inc	1327
Self Insured Services Company	1330
Shepherd, Harry A	1332
Simmons, Donna	1335
SM Administrators	1337
Snowden, William E	1339
Sorenson Engineering, Inc	1340
Sort-Rite International, Inc	1343
South Carolina Federal	1345
South Carolina National Bank	1348
Southern States Cooperatives, Inc	1350
South Georgia Medical Center	1351
Southern Cardiovascular Associates	1353
South Mountain Medical	1355
Southwestern Life Insurance Company	1357
Sparta Pipes, Inc	1359
Spartan Food Systems Inc	1360
Spartan Mills	1363
Sports Industries of America, Inc	1364
Spradley & Coker	1366
Standard Insurance Company	1368
Stanley, Holcombe & Associates, Inc	1379
Stanley Interiors Corporation	1377
Sturevant Richmont	1383
SumX Corporation	1385
Sunday School Board	1386
Sunlife of Canada	1389
Sunset Moulding Company	1391
SYSCO	1392
Thomasville Ob-Gyn Associates, P.C	1394
Travelers Insurance Companies	1395
Triad Energy Corporation	1403
Trinity Baptist Church	1406
Trust Fund Computer	1408
Twin City Administrators, Inc	1409
Unifour Business/Medical Coalition, Inc	1411
United Carolina Bank	1413
United Construction Workers	1416
United Technologies	1419
Universal Companies, Inc	1422
Van Kampen Merritt, Inc	1424
Vulcan Materials Company	1438
Wadsworth, Inc	1441
Washington Co.-Johnson City EMS, Inc	1443
Washington National Insurance Company	1444
Wachovia Bank and Trust Company	1451
Weiner Memorial Medical Center	1455
Wellco Enterprises, Inc	1456
Wesey Medical Center	1458
Wesleyan University	1465
Western Reserve Life Insurance Company	1488

	Page
Westoff Tool and Die	1489
Westinghouse Electric Corporation	1490
Willis & Willis, P.C	1492
Whirlpool Corporation	1497
White & Company	1502
W.R. Willett Lumber Company	1503
William E. Mahoney, Jr. & Associates, Inc	1505
Wiser Oil Company	1508
Wyatt Company	1510
Young Refining Corporation	1525
Young Women's Christian Association	1527
Zegart, Kenneth N	1528

THE ABOW COMPANIES
ABOW FINANCIAL PLANNING
ABOW GROUP SPECIALISTS
ABOW RETIREMENT PLANNING
ABOW GROUP & PENSION SERVICES
ABOW PROPERTY & CASUALTY AGENCY

1221 WEST BIG BEAVER ROAD, SUITE 203
TROY, MICHIGAN 48084
(313) 649-1990

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: Employee Benefit Hearings

Dear Mr. DeArment:

As a practitioner in the employee benefit field, I am quite concerned regarding the Treasury Department and Congress' review regarding employee benefits and their tax status.

Specifically, Mr. DeArment, I would like you and those memebers of Congress who are reviewing the tax status of employee benefits to know that I believe:

1. Employees would receive less benefits if employer sponsored benefit programs did not exist;

2. The tax advantage status of these benefits promulgates their development;

3. Many of these benefits are essential to the economic security of employees and their dependents;

4. Benefits are generally not descriminatory. Although there are some abuses, for the most part benefits do not go principally to higher paid executives within a firm, nor are they reserved for male population only. I have yet to witness substantial descrimination within an employee benefit plan.

I have been a practitioner in the employee benefit field for the past 8 years. The field is evolving and responding to the concerns of the general public. Currently, health care cost containment is a "front-burner item" that is receiving everyones attention. The private sector can and will address this issue successfully.

Thank you for your time and consideration.

Sincerely,

Thomas P. McGraw
Principal

23800 Hawthorne Boulevard • Torrance, California 90505
(213) 373-8661

RICHARD E. KIPPER
President

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee On Finance
Dirksen Senate Office Building
Room SD-219
Washington, D. C. 20510

Dear Mr. DeArment:

RE: TAXATION OF EMPLOYEE BENEFITS HEARINGS JULY 26, 27 and 30, 1984
(SENATOR PACKWOOD)

I strongly believe that tax laws should encourage employers to provide to all employees fringe benefits and services such as medical, dental, day care, educational assistance and long-term welfare such as profit sharing, retirement, pension, etc. I feel the current rules governing these benefits are sufficient to ensure that benefits do not principally go to the highly paid or to men only and that all employees benefit fairly from tax incentives.

Fringe benefits are an essential tool for employers in attracting good personnel; likewise, these benefits allow the employee to choose employment based on benefits offered. It is obvious that both the employee and the employer would suffer if the employer-sponsored benefits did not exist.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet their needs, government must and I believe the ultimate price to our nation will be greater.

Sincerely,

Richard E. Kipper

REK:ns

TELEPHONE
986-2561

BOX 346
NORTH TAZEWELL, VA. 24630

Acme Markets, Inc.
A-Mart Stores

RETAILER OF THE YEAR

SIDNEY PEERY
CHAIRMAN OF THE BOARD

CHARLES E. CAUTHEN
PRESIDENT

TO: Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management

FROM: Acme Markets of Tazewell, Va., Inc., Its Divisions and Subsidiaries

We have a deep concern for our loyal and trustworthy employees found not only in the supervisory but also in rank and file positions of our various retail operations and also our distribution center. Our company has, since its inception, demonstrated strong social concerns for all employees regardless of economic circumstance or racial origin. Our records of almost 100 years will indicated that roughly one half of our employees are female and we have always felt an equal responsibility to our ladies.

Although we are not a large company, we feel that we have been fortunate in building an effective and balanced employee benefit system. We feel that the vast majority of our employees would not want it replaced by a government benefit system. We feel that we can provide maximum satisfaction to our employees and give maximum benefits for the least cost possible. We feel that private enterprise should be encouraged to meet the reasonable needs and incentive should be offered by the government to this end. If unrealistic regulation is imposed, we feel that the incentive for private enterprise will be squelched and ultimately, the employee will suffer the greatest loss.

Your help in preserving a sound employee benefits system through private enterprise will be greatly appreciated.

Yours very truly,

Charles E. Cauthen

Charles E. Cauthen
President

ADDISON PRODUCTS COMPANY
ADDISON, MICHIGAN · 49220
PHONE (517) 547-6131

August 7, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Statement of Oral L. Goble, Executive Vice President and Chief Operating Officer of Addison Products, in connection with the hearings of the Senate Finance Subcommittee on taxation and debt management on the subject of fringe benefits, July 26, 27, and 30, 1984.

Addison Products Company, employing 750 persons, vigorously protests the possibility of taxing fringe benefits which are necessary to the health and general welfare of its employees.

Through many years of development, employers across the nation have worked diligently to improve health care, life insurance, and security of retirement.

Employers have provided and supported affordable benefits with group purchasing power, despite dramatic inflationary increases in the costs of such benefits.

Taxation of fringe benefits means that employers and employees must eventually pay more for like benefits; or, reduce benefits offered and needed to a lesser level. Neither result is compatible with the needs of productive companies and employee groups everywhere.

Taxation of fringe benefits would be an undeserved penalty to working Americans who are productively contributing to the economic and social strength of our country. Penalizing this group is another step towards stifling national productivity to counter excess government spending for non-productive endeavors.

Sincerely,

ADDISON PRODUCTS COMPANY

Oral L. Goble
Executive Vice President
Chief Operating Officer

OLG/ph

AD HOC COMMITTEE
FOR A RESPONSIBLE TAX POLICY
1750 PENNSYLVANIA AVENUE, N.W
SUITE 1201
WASHINGTON, D.C. 20006
(202) 737-7945

August 6, 1984

WRITTEN STATEMENT
OF
THE AD HOC COMMITTEE FOR A RESPONSIBLE TAX POLICY

Submitted For The
Senate Finance Committee's
Hearings on Major Tax Reform Options
August 7 and 9, 1984

Winston Churchill called democracy the worst form of government, except for all the others. Similarly, the progressive income tax may be the most unfair system for raising Federal revenue, except for all the others. We abandon either at our peril.

Clearly, paying taxes is a painful business for everyone, and levying them an onerous responsibility of office. Ever since the enactment of the progressive income tax we have tried to lessen the pain, share the burden more equitably and end abuses.

It is complicated and frustrating process, for taxpayer and lawmaker alike. But it is a process which recognizes the inextricable and complex links between taxation, equity and economic health. Our tax laws are both delicate and mighty instruments of public policy.

But they are also far from perfect and seemingly never finished, overly complex, needing constant attention, adjusting, tuning. The impulse to throw out the whole baggage and start again with something simpler is obviously appealing and must strike a responsive chord in the heart of anyone who has ever filed a form 1040.

A flat-rate income tax is an apparent simple proposal. It would sweep away deductions, shelters and capital gains exclusions. It would be easy. It could also be a disaster.

Many economists say it would unintentionally shift the tax burden to moderate-income wage earners while cutting taxes for those earning more than $50,000 annually by $40 billion. It could stifle needed investments and sap economic growth. Because it would be so gross-grained, infinitesimal rate increases could mask subtle but dramatic policy changes. A hundred invisible taxes could pass under the cloak of an increase of a fraction of a single percentage point.

The Committee for a Responsible Tax Policy believes you cannot reform the progressive income tax by discarding it. Its underlying theory, that those who earn more should pay more, is reasonable and works.

It is crucial, as the debate is joined in the months ahead, for this most important subject to receive full and thoughtful examination -- and for its effects to be measured against the well-being of our nation and its future health.

It should be noted that on the whole the American tax system has been compared to all others -- a great success. Its provisions have encouraged home ownership (more than 65% of American families own their own homes) and the concomitant social stability. American taxpayers have a record of voluntary compliance that is the envy of other countries, though no matter what the tax system is like there will be those who try to evade paying taxes. Our economic system, at least in comparison with others, has also been a success.

Proponents of change appear to believe that a tax system actually could be "simple" by eliminating all those provisions as to credits, exemptions, and exclusions. But what they appear to overlook is that the very terms which any tax code must employ would contain, in its definition, a world of complexity. Consider the very phrase, a "tax on income." Now, what is "income?" In a remarkably

level-headed dissection of the flat tax and its effect on the average taxpayer, Professor Deborah Schenk, Vice Chairman of the Committee on Low Income Taxpayer Problems of the Section of Taxation of the American Bar Association and a visiting professor at the New York University School of Law, has noted the enormous difficulty in defining income. Is one dollar equal to every other dollar, as the flat tax people say? Is a dollar in fringe benefits worth to its recipient a dollar of wages, or is it worth something less? Can we put an income value on the working conditions -- on the relative luxury of offices, or the free use of telephones, or health care, or legal services? Representatives of the Treasury Department have on occasion characterized owning ones own home as giving rise to theoretical "rental" income.

What about "transfer payments" such as Welfare? Does this constitute "income?" And if it does, then shouldn't a tax be put on it? Or food stamps? Professor Schenk has concluded that such a system (flat-rate taxes) is not likely to be either equitable or simple. She also cautions that, although adoption of flat-rate taxes might eliminate some of the current problems in the tax law, it will introduce a host of new ones. For example, do the

proponents mean to imply that the expense of producing income will no longer be deductible? Should a young doctor in private practice who grosses $100,000 and pays $60,000 in related expenses (e.g. nurse, rent, electricity and depreciation of medical equipment) pay twice the amount of tax as does his colleague who is working for a $40,000 salary?

The flat tax and similar tax plans promise a false simplicity, complexity cannot be avoided because the very terms "income" and "deduction" require definitions that are complicated.

As things now stand, the government uses the tax system to channel certain investments. By offering tax advantages, for example, it encourages private investors to build and maintain low-income housing. In a flat tax system such tax advantages would disappear. Some appear to assume that public support for low-income housing would also magically disappear. It would not. What would happen is that this would become a function of the government. And the government would with its usual inefficiency, inattention to administrative costs, and general meddlesome proclivities, create a bureaucracy to oversee

its new real estate business. The current Administration has clearly and properly rejected this approach. So we have a choice, we can either have such housing built by private investors taking advantage of provisions of the tax code, or we can have the government do it with its usual clumsiness.

And what about those provisions which proponents claim they would maintain even under a flat tax system -- such as the home interest deduction, or the deduction for charitable contributions. Once the principle of no credits, exemptions, or deductions is accepted, then it is but a short step to the achievement of a "pure" flat tax. Indeed, Senator Bradley, the leading proponent of the flat tax, has made no bones about it. He opposes in principle all such deductions and exemptions and wants them retained only on political grounds: they are too popular to be thrown overboard. What this means is that if the flat tax or a modification of it, were to be enacted, it would only be a matter of time before its purist proponents would be agitating for the "full" version of it. Now home ownership is more than a means to improve neighborhoods. It also has a profound effect on social, and hence political stability. People who own their own homes tend to have a stake in their community that others do not.

This is particularly true in areas where they can act as a break on spendthrift local governments -- since it is property taxes of homeowners, they have a stake in keeping local public expenditures in check. A similar threat comes from the possible ending of charitable deductions.

The burden on state and local governments which impose income, tax sales, and property taxes, would grow as the after-tax cost of these items to the everyday taxpayer would increase by up to 100% (to taxpayers presently in the 50% bracket). The interest costs of public debt of state and local government levels would soar as the relative tax benefit of tax-exempt income would diminish and municipal bond rates soar.

It should be pointed out that more than economics is at stake. A flat tax would essentially deprive Congress of its tax-writing power. Much of Congress' power is derived from this function. The power of the Executive Branch would be greatly increased -- and the power of Congress, the traditional break on the Executive, diminished.

The progressivity of the income tax has always been its most acceptable feature. Although many resent that the "rich" get a larger tax break from a dollar of deduction

than do the poor, almost none of them disagree that the better off should pay a higher proportion of their income. The very essence of the American tax system has for decades been its progressive nature. Most of us believe that the tax rates should be higher for higher income levels than for lower income levels. We believe it just that someone who earns $1,000,000 a year should pay a far higher proportion of his income than someone who earns $10,000. The "flat tax" would do away with progressivity. It would shift the burden of taxation away from the richest taxpayers to the middle and lower income groups.

The United States leads the world in the percentage of people owning their own homes. It is not accidental that our tax system provides incentives for home ownership. Life insurance too is widespread and serves a critical and valuable function, again reflected in provisions in the Code that encourage the taking out of life insurance policies.

Before any other consideration we must face squarely the issue of what kind of tax system we want: one that is simply used to raise revenues, or one that, while it raises revenues, also encourages certain activities and investments and discourages others.

How do we go about encouraging private investment in the "sunrise" industries? The way we do it, of course, is to make investment in fledgling enterprises, enterprises that offer little in the way of current yields (dividends) but much in the way of potential capital appreciation, more attractive. And the way we do this is to tax capital gains at a maximum rate of 20%, while ordinary income is taxed at a maximum rate of 50%. Thus, investors are willing to forego current profits for the possibility of a much larger profit later on, one made more tempting by the favorable capital gains treatment. Bradley-Gephardt would eliminate the distinction between capital gains and other income. The result, obviously, would be that investors would deem it more prudent to play it safe, to invest in long established enterprises with a higher annual yield. Safe, guaranteed debt investments would attract money which today is committed to equity positions in new companies, research and development of new technologies and products, energy exploration and real estate development. Thus investments would be channeled away from the smaller, potentially higher-growth industries, which historically have also been the source of new jobs.

The Assistant Secretary of the Treasury for tax policy, John Chapoton, has testified that a flat tax would give

those earning over $50,000 a year a $40 billion tax cut. Since all parties agree that total revenues will not be diminished by a flat tax that $40 billion a year will have to come from those earning less than $50,000.

It simply isn't true that a "flat tax" or "fair tax," involving a massive overhaul of the system is the only way to make things work. In fact, the IRS. has been doing a good job of making the rich ante up. In 1979 the top 5% of the taxpayers paid 37% of all taxes. Since then the wealthiest members of society have found it still harder to avoid or diminish taxes. There has been an enormous increase in the investigation of tax shelters. There are currently 327,000 investigations being conducted by the IRS; a decade ago it was 400.

In addition, the question of fairness of the tax system, by means of a minimum tax for all taxpayers, has already been addressed by Congress, in part, in a responsible and reasonable fashion. Congress in 1982 passed the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). TEFRA requires that all taxpayers, after completing their tax returns, review the tax returns and do an additional calculation. In reality, this additional calculation is

only required for the taxpayers in the upper tax brackets. Effective since 1982, the alternative minimum tax on tax preference income (including untaxed capital gains, certain accelerated deductions and excess itemized deductions) is 10% for amounts from $20,000 to $60,000 and 20% on the excess above $60,000.

If a taxpayer overutilizes itemized deductions or tax shelter investments, the alternative minimum tax effectively imposes a flat tax of 20% (lower for the first $60,000) on his adjusted gross income, calculated under the alternative minimum tax formula. Accordingly, a form of flat tax in the form of the 20% alternative minimum tax on the very rich already exists. An across the board flat tax would merely constitute a massive tax giveaway to this group by eliminating the higher progressive rates.

In recent hearings before the Senate Finance Committee, Senator Grassley indicated that he had reviewed statistics indicating that esentially all Americans are now paying taxes as a result of the alternative minimum tax calculation.

Accordingly, the issue of fairness of the present tax system is not in question, at least, when one looks at the

issue of whether at the upper end of the income scale there are taxpayers who are being required to pay their fair share of taxes, even if they are making investments which would otherwise provide them with tax deductions. Since 1982, as Senator Grassley indicated, there have been four or five different revisions to tax laws enacted, including, most recently, the 1984 tax bill, which go even further to insure that the alternative minimum tax and similar provisions aimed at insuring the fairness of our tax system be part of our current tax law. The present system, which is a graduated tax system, does not provide free rides for any individuals at the upper income brackets.

In testimony before the Joint Economic Committee, August 19, 1982, Jerome Kurtz, former Commissioner of the IRS, testified before Congress: "if a flat tax rate were applied, even to a greater simplified and therefore expanded definition of income, the result would be substantial increases in the taxes of most lower and middle-income taxpayers and corresponding reductions in the tax liabilities of those with the highest incomes. It is sometimes claimed that a flat-rate tax would not reduce taxes for the rich because, with tax shelters and special

benefits, they pay little taxes today. This assertion is untrue. While some wealthy people do pay little or no tax, many pay very substantial amounts. On average, our income tax remains progressive ... all proposals for flat rate taxes would cause large tax reductions for the highest income tax payers at the expense of the less affluent."

We should continue to try to simplify the administration of the income tax. We should support simplifying the present system of credits and deductions for dozens of items which may be applicable to the average lower and middle-income taxpayer, replacing it with an expanded standard or non-itemized deduction, with the goal of permitting 70% of all individual taxpayers to file simple, short forms without requiring professional assistance. We support continued review and modification to the alternative minimum tax to ensure that it fulfills its purpose effectively. We also recognize that the tax code should be a supple instrument of policy susceptible to constant and fluid change just as the economy itself is. Selective tax cuts, the adoption of investment tax credits and shorter depreciable lives in 1982 for real estate and equipment fueled the present economic recovery.

masterminded by this Administration. In fact, those changes were the most important tool used by government in assisting business and labor to generate our current economic recovery, while slashing unemployment and reducing inflation. Should this economic tool, a progressive tax system embodying incentives and dictated by public policy be discarded after its power, effectiveness and success has just been reaffirmed?

In economics, as well as in politics, the extreme and radical "solution" may have unforseen, surprising, and dangerous consequences. We cannot afford to take such a risk with our economy and our society.

Ætna

Employee Benefits Division
400 Renaissance Center
Suite 770
Detroit, Michigan 48243
(313) 259-8674

Richard H. Smith, Jr., CLU
Senior Account Executive

July 25, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D. C. 20510

Dear Senator Packwood:

You have announced that you will be holding hearings on July 26, 27 and 30 on the issue of fringe benefits.

I would like to express my personal concern about the current tax environment for employee benefits.

Over the years, employers in this country have been responsible for a tremendous increase in the personal security enjoyed by American workers and their dependents. Voluntarily created employer-sponsored life, health, and disability insurance, pension plans, and other benefits cover the vast majority of employees. These programs have been encouraged by favorable federal tax treatment and [illegible] in turn, saved the federal government substantial sums which would [illegible]rwise have been necessary to fund and operate government welfare programs.

As the Senate Finance Committee assesses the current tax environment for fringe benefits, I think it is important to keep in mind that employee benefit plans are the most efficient and cost-effective way the market has devised for delivery of economic security to employees. This economic security extends to employees at all wage and salary levels and is a critical part of their financial well-being.

Preferential tax treatment for these plans has encouraged their growth and is a wise investment in the future economic security of our nation. If tax policy ceased to encourage employee benefits, additional strain would inevitably be placed on public institutions and programs, ranging from community hospitals through the Social Security Retirement and Disability Income System.

Congressional tax policy should continue to foster employee benefits and not regard them as simply an untapped source of revenue.

Sincerely,

Richard H. Smith, Jr., CLU
Senior Account Executive
Employee Benefits Division
smh

STATEMENT

OF

ÆTNA LIFE & CASUALTY

ON THE SUBJECT

OF

TAXATION OF EMPLOYEE BENEFITS

SUBMITTED TO

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

UNITED STATES SENATE

HEARINGS: JULY 26, 27, and 30, 1984

SUBMITTED BY

BURTON E. BURTON
SENIOR VICE PRESIDENT

We welcome this opportunity to share with the Subcommittee our views on whether it is necessary and proper for the Congress to continue to provide tax-favored treatment for employee benefits.

Aetna Life Insurance Company is the largest group insurer in the country. We have over 50,000 employer customers who are pension and welfare benefit plan sponsors. We insure or administer benefits for more than 12,000,000 employees and dependents under plans providing life and health insurance. We have as pension clients 80 percent of the Fortune 500 companies. In addition, we are a major plan sponsor for about 80,000 of our own employees and their dependents nationwide. We have a great appreciation of the social value of employee benefits and an intense interest in tax policy toward benefit plans.

RATIONALE FOR PRESENT TAX POLICY

Employee benefits, especially pensions and health insurance, have made enormous contributions to the economic security of American workers and their families across the income spectrum. For most employees, anxiety over large medical expenses and an adequate level of retirement income has been substantially alleviated or even, particularly in the case of health insurance, virtually eliminated. This degree of economic security is a fairly recent phenomenon that is due to the growth in scope and availability of private benefit plans and to the Social Security retirement income and Medicare programs. The value of this combination of private and public plans in terms of social stability and the public welfare is immeasurable and, we think, beyond argument.

The Congress, in its wisdom, has long recognized the value of promoting organized, efficient ways for people to provide for their future economic security. The Congress has done so directly, with the Social Security system, and indirectly through the private sector by means of tax policy that encourages retirement planning and health insurance in the employment setting. There are those who advocate a reversal of this tax policy now for the purpose of raising additional tax revenue. We believe tax preferences for employee benefit plans are in the public interest, need to be preserved and, indeed, may need to be expanded in at least one direction.

Tax-favored treatment of contributions to employee benefit plans has encouraged development of the most efficient way yet devised to provide pension and insurance benefits to the greatest number of people at the lowest possible cost. The group distribution system for benefits is far less costly than individual marketing, which would be the only alternative. Intense competition in the group insurance and plan administration business, economies of scale and the relatively sophisticated buying power of employers and organized employee groups result in employee group coverage that is as much as fifty percent less costly than coverage available in the individual market. Even more important, underwriting of health and life insurance on a group basis makes benefits available to employees and dependents who, because of their age or health status, may find it difficult or impossible to find individually underwritten coverage.

Recognition of these advantages of employee benefit plans over alternative systems of distribution has contributed to dramatic growth in the numbers of people covered by these plans. There are some who argue that the employee welfare benefit system is mature; that tax policy has hastened the achievement of this maturity; and that the Congress should now withdraw the tax preferences for employee benefits. On the contrary, the goal of adequate coverage for all workers and their families has not yet been reached, especially with respect to the private pension system. Although health insurance (except for dental care) is almost universally available across income levels, its comprehensiveness still varies widely among employers. Furthermore, coverage under private pensions is still less than adequate for lower and lower-middle income employees and for those working for smaller employers.

Considerable progress is being made in this respect, but it is gradual and incremental. The private pension system is not yet at the point where we can say confidently that virtually all middle income workers will be substantially relieved of financial anxiety after retirement because of private pensions. Until we reach that point, it would be premature and unwise to reduce or eliminate the current tax incentives for retirement planning.

CONSEQUENCES OF CHANGING TAX POLICY

The consequences, both political and economic, of eliminating or greatly reducing the encouragement given by tax policy to private social protection systems would be severe. While nobody knows precisely how employers would respond, reducing the tax incentives enjoyed by employee benefit plans would definitely shift the preferences of both employers and employees toward cash wages. This would reduce the rate of growth in the formation of new private benefit plans. Because those people who are presently least likely to be covered are lower income people, they are the ones who would be most disadvantaged. Without growth in private benefit plans, coverage of the poor who are now excluded would be postponed further, probably indefinitely.

Low income people who are presently covered are also likely to be severely affected. Employer-sponsored group insurance plans are likely to be the only kind of coverage low income people can afford. If employers drop those plans, low income people are much less likely than higher income people to replace those benefits from their own resources. Higher income people would continue to have the capacity to save (by means of IRAs, annuities, life insurance, etc.), but the future economic security of other workers and their families would be jeopardized. Furthermore, the effect of the Social Security payroll tax, combined with other taxes, would mean that all employees, including lower income workers, would face significantly higher taxes.

There is also a serious political problem associated particularly with the current generation of working Americans. Because of the high levels of Social Security (including Medicare) benefits, relative to past payroll taxes paid, that are enjoyed by those currently retired or approaching retirement, it is inevitable that the majority of those now working will get back less in Social Security benefits than the time-adjusted value of their and their employers' payroll taxes. This situation is likely to be politically sustainable only if the current generation of workers perceives that it can supplement Social Security benefits with reasonable private sector benefits (particularly pensions). If, however, working Americans find that their private sector benefits have become less adequate at the same time as they are being asked to accept a lower return on their Social Security contributions, the social contract needed to sustain the Social Security system is likely to unravel.

Those who argue that the tax preferences for employee benefit plans should be reduced or eliminated contend that high income people are uniquely advantaged by these plans and would be the only ones to be seriously disadvantaged by taxation of these plans. Yet there is ample evidence that rank and file workers regard employee benefits at least as highly as owners, executives and professionals. In a recent survey by Cambridge Reports, Inc. on employee satisfaction with wages and benefits, lower income households reported being considerably more satisfied with their employee benefits than with their wages. Among higher income households there was virtually no difference.

Total Household Income	% Very or Somewhat Satisfied	
	Wages	Benefits
$ 0 - $ 8,000	54	65
8,000 - 12,000	27	59
12,000 - 15,000	57	71
15,000 - 20,000	66	80
20,000 - 25,000	67	63
25,000 - 35,000	71	76
35,000 and over	79	79

Unions, even in companies close to bankruptcy, have been reluctant to give up their benefits. Under the present tax structure, they have been more willing to give up wages instead. If benefits became presently taxable, the opposite result would be more likely. Lower income people especially would find it difficult to pay taxes imposed on benefits. After all, these taxes would have to be paid out of their remaining cash income which would presumably not have increased accordingly.

COST EFFECTIVENESS OF PRESENT TAX POLICY

We cannot, however, have our cake and eat it too. We know what public policy should be. The issue is, can we afford to support it? The answer to this question involves two other issues: How cost-effective is the tax preference in buying social protection through the private sector? And where do we rank tax-favored employee benefits in the hierarchy of all the tax preferences in the Internal Revenue Code?

First, it is clear that tax incentives are a particularly cost effective way for the federal government to accomplish the goal of widespread employee protection. Tax incentives act as a lever, encouraging employers and employees voluntarily to skew the compensation package so that it incorporates socially valuable savings and insurance benefits which would otherwise have to be provided by the government. In other words, the government gets a dollar's worth of benefit by spending only 30 to 40 cents.

Second, there is a problem with the way in which the cost or "tax expenditure" for private pensions is estimated by Treasury. While the tax preference accorded health insurance plans is an exemption, taxes on pension contributions are merely deferred. Eventually taxes will be paid when the participants collect their retirement benefits. Obviously, the true estimate of foregone tax revenue is composed of the cost to the Treasury of postponing the receipt of the revenue in time plus (minus) the impact of the retirees being in lower (higher) tax brackets than they were as workers.

Instead, however, of performing this longitudinal estimate, Treasury uses a cross-sectional estimate of tax expenditure, subtracting taxes on this generation of retirees from the foregone taxes on the pension contributions for this generation of workers. Because of the rapid growth in both participation and benefit levels in U. S. pension plans, this is an extremely biased estimate of the true long-run cost to the Treasury of encouraging private pensions. In the long run, the true "cost" to the Treasury may be less than half of what it is projected to be.

Third, the context of these hearings is the need to broaden the tax base in order to raise revenue. The decision on whether or not to tax employee benefit arrangements can be made only after the cost-effectiveness and equity issues that prompted this hearing are asked of other tax preferences too. For example, the tax benefits accorded to home ownership are received by fewer than one-third of all tax-payers (since only one-third itemize deductions) and among these the distribution is heavily skewed toward high income individuals. It would be extremely difficult to make a convincing case that the tax preferences which promote widespread health and pension coverage and are enjoyed by the vast majority of workers, provide a less valuable and less universal social benefit than those supporting home ownership.

In the end, if the objective is to broaden the tax base, the question is which of the panoply of tax preferences should be modified. Only after the whole range of tax preferences has been examined should employee benefits be considered for this purpose.

CONCLUSION

The value to society of present tax policy toward health benefits, pension plans and life insurance is clearly established and has long been recognized by the Congress and the public. Tax preferences for these benefit plans are cost-effective and have promoted a highly efficient means of assuring financial security for workers and their families through the private sector.

Changing this tax policy now would be premature. The full value of employee benefit plans, particularly private pensions, has not yet been realized by lower and lower-middle income employees. More must be done. Those most in need of an organized, employer-sponsored delivery system would be most adversely affected if tax policy ceased to encourage growth in these plans.

In fact, we believe tax preferences should be expanded in at least one direction. There is a growing awareness that the need for financing long-term care for the elderly will soon become a social problem of alarming proportions. Currently, these are very few private benefit plan arrangements that address this issue. We would urge the Congress to consider ways in which federal tax policy could encourage employers and employees to conduct more adequate financial planning for long-term care for the next generation's elderly population.

The Congress should be applauded for its enlightened policy toward employee benefit plans. We sincerely urge the Congress not to jeopardize the future success of these plans.

A&H ADMINISTRATORS INC.
2515 NORTH 124TH STREET, SUITE 220
BROOKFIELD, WISCONSIN 53005
(414) 785-1585

August 13, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 70510

Re: Employee Benefit Hearings

Dear Mr. DeArment:

It is truly disconcerting that the whole idea of providing employee benefits with non-taxed dollars has to be "sold" to our representatives in Congress.

Do our representatives understand that without the protection that we employers offer our employees through group Life and Health policies, these obligations would most likely fall upon the taxpayer. Many employees, if given an option of paying for coverage with taxed dollars or not having it, would choose not to pay for it.

If there is any suggestion that the federal government would "provide" a minimum level of benefits in lieu of employer sponsored plans, I am totally against such a proposal.

The financial uncertainties posed by the Social Security System is evidence of the poor planning that our legislators have done. I do not need another federal obligation which I have no control over.

Our present system is equitable and has enhanced employer-employee relations over the years. And most importantly, it is cost effective.

Sincerely,

Jerome F. Tokarz, President
A & H Administrators, Inc.

JFT/kz

AID Insurance

AID Insurance Companies
P.O. Box 974
701 Fifth Avenue
Des Moines, Iowa 50304

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

I understand that Senator Packwood held hearings on Fringe Benefits on July 26, 27 and 30, and that he has asked for written statements from plan sponsors of as many companies as possible who are concerned about the future of employee benefits.

As a manager, I believe that private business has shown the capacity to respond to employee needs; we are better equiped to identify those needs and adjust more quickly to change than could any government program.

As a member of a protected class that is highly represented in matters of employee relations, I resent the naive assumptions of Congress that Human Resourse professionals are not effective in communicating the needs of all employees to top management. In fact, my experience has been contrary to the misconception that the highly-paid are the primary recipients of employee benefits.

In summary, I believe that employee benefits are essential to the economic security of our workers, retirees and their dependents. Our workers would suffer if employer sponsored benefits no longer existed.

Sincerely,

Marla Franklin

Marla Franklin
Asst. Vice President
Personnel Department

MF/cg

City of Aiken
South Carolina

H. O. Weeks
Mayor

August 9, 1984

Telephone 648-956(

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, DC 20510

Re: Senate Finance Subcommittee Hearings on Taxation of Employee Benefits, July 26, 27, and 30, 1984.

Dear Mr. DeArment:

Employee benefits, with the City of Aiken, are essential to the economic security of city employees, retirees, and dependents. These benefits permit the City of Aiken to remain competitive with area businesses and governments, without direct financial compensation or competition. Private enterprise has built an effective and efficient arrangement covering the needs of city employees through the employee benefit system. This is far superior to any government program which would replace it, and it should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If the City of Aiken is unable to meet these needs, the federal government must step in with additional, and costly, federal programs. We believe the ultimate price to our nation will be greater.

The city's benefits are spread equally among all city employees, male and female, and among employees of all races and ages. Our pension plan is geared to particularly benefit the lower paid employees. The retirement salary for these employees, with both Social Security and the city's private pension plan combined, equal a greater percentage of pre-retirement pay than for those employees in the higher compensation brackets. The city's payments for hospitalization insurance for all employees is a greater percentage of total compensation for lower paid employees, and all employees benefit from our benefits package.

Although we do not adjust our pension plan as often as we would like, we do make occasional adjustments in the pension plan for the negative effects of inflation on our retirees. On December 7, 1983, we notified our retirees that pensions were being adjusted to provide for a 10% increase in City of Aiken pensions, with a minimum of $25 per month increase for each retiree.

We do appreciate this opportunity for comment on taxation of employee benefits. Our benefits are a very important part of our total compensation package, and our employees rely on these benefits to provide both the quality of life and the economic security necessary. Of course, we are always available for additional information and assistance.

Very truly yours,

H. O. Weeks

Mayor

cc: Mr. W. D. Blalock, FLMI

SUPPLEMENTARY STATEMENT OF

CAPTAIN ROGER A. BRUGGEMEYER, CHAIRMAN

NATIONAL RETIREMENT AND INSURANCE COMMITTEE

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

U.S. SENATE

ON THE TAXATION OF EMPLOYEE BENEFITS

AUGUST 13, 1984

The Air Line Pilots Association, International represents more than 34,000 pilots under separate collective bargaining agreements with 45 airline carriers. The Association appreciates the opportunity to supplement our views on the taxation of employee benefits presented orally before this Subcommittee on July 30, 1984 by Captain Bruggemeyer.

The Association considers the Federal tax treatment of employee benefits to be a key factor in collective bargaining with employers. As a result, the Association has been successful in securing for its membership significant levels of retirement, life, disability and health benefits through qualified pension plans, insurance and voluntary employees beneficiary associations (VEBAs). Thus, the tax-exempt status of the qualified pension trust, the exclusion from current income of employer contributions to the trust and the favorable tax treatment accorded distributions from such trust all work together in determining the value of the retirement benefits negotiated on behalf of our members. Similarly, the exclusion from current income of health premiums or benefits and premiums for the first $50,000 of life insurance add

to the value of those benefits. The tax-exempt status of negotiated VEBAs has helped to assure our members that adequate funding levels will be maintained with respect to negotiated benefits provided thereunder. Any alterations which lessen the favorable status of the tax treatment of these benefits and trusts will seriously impact the value of the benefits which have already been negotiated, reduce the funding levels of the trusts and undermine the value of our members' existing collective bargaining agreements.

A clear example of the reduction in the value of our existing contracts occurred with the passage of TEFRA. Because pilots' working careers are often shorter than most other employees', due to both the strict medical standards which pilots must satisfy and the Federally-mandated retirement age of 60, retirement benefits are of special significance. TEFRA drastically cut back the maximum levels of retirement benefits and contributions which can be accrued under qualified plans, directly affecting the negotiated retirement benefits and retirement planning of many of our members. Contrary to the collective bargaining process itself, these cutbacks constituted Congressionally-mandated bargaining concessions to the employers with whom the Association negotiates, in terms of the lower level of funding required by the lower benefit and contribution limitations. In addition, TEFRA altered the status of prior law raising from 55 to 62 the age at which an actuarial reduction is required from the maximum limits for defined benefit plans. This change further reduced the value of the retirement benefits negotiated on behalf of our members, who by Federal law must retire at age 60.

Another clear example of a cutback directly affecting existing benefits is the modification made to the tax treatment of VEBAs and other funded welfare benefit plans by the Tax Reform Act of 1984. This modification will severely limit the ability of employers to fund adequately for benefits over an extended period. As stated previously, pilots are required to satisfy strict Federal

medical standards in order to continue flying. As a result, disability benefits are very important to our membership. In many cases, these disability benefits are provided through VEBAs. However, the stringent medical requirements make claims experience in this area even more unpredictable than it is with respect to other occupations not so regulated. In this regard, a VEBA funded under the new statutory guidelines could very quickly become inadequate to pay disability benefits from one year to another.

Similarly, the provision of retiree medical benefits through a VEBA is jeopardized if the VEBA cannot be funded on a level basis over the working life of the employee, with due consideration given to the escalating costs of medical care. The limitations on VEBA funding may result in employers opting simply to fund these and other benefits on a pay-as-you-go basis, with potentially devastating results in the long run.

Thus, the Association's intention in providing disability and medical benefits through a VEBA, to meet our members' unusual needs on a more level funding basis, has now been legislatively thwarted.

The Association feels that recent legislative cutbacks in employee benefits such as those discussed above are too harsh and does not wish to see further erosion in the value of our negotiated benefits in the name of deficit reduction.

However, the Administration has now proposed to place annual limits on the amount excludable from employees' current compensation by reason of employer contributions for employee health care coverage. The two goals expected to be reached by the proposal are to raise revenues and contain health care costs. However, there is no evidence that either of these goals will be reached.

If a cap is placed on tax-free contributions for health care, the most likely result will be a wholesale reduction in the provision of health care coverage in the United States to the levels that may be purchased with the amount of tax-free contributions. Second, contributions previously made to purchase tax-free health benefits will be shifted, in some cases with union encouragement, to purchase other benefits retaining tax-free status. Third, lowering health care coverage will result in the more frequent utilization of the medical expense deduction by individual taxpayers forced to pay expensive medical bills themselves. Obviously, none of these three results of placing a cap on tax-free health care coverage will yield an increase in tax revenues.

Assuming health care coverages are limited to the levels which can be purchased tax-free, the first benefits to be deleted will be those added most recently, namely, preventive care benefits. Such benefits include dental and vision care plans, outpatient services and other benefits, all designed to contain health care costs . However, the deletion of preventive care benefits would only give rise to additional claims for such basic benefits as hospital and surgical benefits, the most expensive health care benefits provided. Of course, additional claims for such expensive benefits will yield higher, not lower, health care costs.

Besides failing to achieve the goals of raising revenues and reducing health care costs, the current proposal to limit tax-free health care coverage takes aim at the wrong taxpayer group--the American worker. Because health care costs are equal whether an individual is in a lower or a higher income bracket, the placement of a cap will disproportionately affect the lower income worker. Assuming health care coverage continues to be provided at a cost above the cap, creating a previously untaxed portion of compensation, lower and middle income workers will suffer a disproportionately higher income tax burden. Assuming health care coverage is dropped to a level which may be

purchased at or below the cap, lower and middle income workers will suffer a disproportionately higher health care burden. Because the costs of health care are concededly high, this effect will be devastating to the lower and middle income worker.

It is the very nature of health care coverage, as universally needed by all workers, regardless of income level, which prompted Congress to provide for the tax-free status of employer contributions for such coverage in the first place. Previous attempts to shift the burden of paying for such coverage to those least able to afford it have been recognized as regressive and have been defeated by Congress. Health care simply is not an appropriate vehicle for deficit reduction.

In summary, the Association believes that excessive erosion in the value of negotiated benefits has already taken place. Attacking hard-fought gains in the area of health care is certainly not the answer to the problems of either deficit reduction or health care cost containment.

STATEMENT OF A I R C A P I N D U S T R I E S, I N C.
IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF
FRINGE BENEFITS
JULY 26, 27, AND 30, 1984

It has recently come to our attention that the Senate Finance Subcommittee on Taxation and Debt Management has taken under consideration certain changes in the tax structure of fringe benefits. We feel that it is our responsibility to express an opinion on behalf of our employees as well as ourselves.

The changes undergoing examination, if implemented, would have a severe economic and social impact on the welfare of our employees. The changes would necessitate a curtailment in our company-sponsored fringe benefit programs. We have worked diligently to tailor a fringe benefit package that would best suit the needs of our employees. These programs would see a benefit reduction necessitated to offset the additional tax burden under review by your Subcommittee.

Our group insurance plan provides for medical coverage, life insurance, accidental death and dismemberment insurance, and weekly income insurance. We are located in a rural area of the country with a work force of primarily unskilled labor.

39-707 O - 85 - 4

The pay scale as dictated by this skill level of the workforce would simply not enable the labor force to obtain adequate coverage on their own. Our group insurance plan is presently within the means of our employees. The coverage is extended to all of our employees. Of the total of 642 employees covered, 487 are hourly workers and 155 are managerial or office workers. The program covers 243 females and 399 male employees. Minority groups represent 43% of the total number of employees.

Any taxation of the fringe benefits that our employees are entitled to under our insurance program must be offset by a reduction in the benefits. To do this at a time of escalating health care costs, puts those employees in an extremely precarious and unjustified position when weighing their health care requirements. We don't want to put our employees in a position where their decision on whether or not to seek needed medical treatment is dictated solely by economics. Implementation of a taxation structure on fringe benefits will accomplish just that result.

We have also imlemented a 401(K) plan in which 612 of our eligible employees elected to participate. The participation is comprised of 524 hourly and 88 salaried employees. Enthusiasm and support for the program has been very high among our employees.

We feel that our employees should have an opportunity to share in the overall success of the company. To this end, we implemented a profit sharing plan that additionally affords our employees a highly beneficial savings plan. Our plan is structured to match the savings of our employees. The amount of employer match is dependent on the profitability of the company. Employees can contribute up to 8% of their earnings to the pre-tax portion of the plan with the company match based on the first 6% of such contribution. The plan offers an opportunity to save an additional 10% in a post-tax savings plan.

One of the prime reasons for the success of the program has been due to our encouragement of all our eligible employees to participate and to contribute whatever they can afford. In many cases, participants contribute only $5.00 per week. The plan has given these people the incentive to save, many for the first time.

If a fringe benefit taxation plan is implemented, our company will not be able to provide the same level of savings match. This diminution of benefits will most adversly impact those participants for whom this plan represents the sole means of providing for the future.

We sincerely feel that the proposed changes in the tax status of fringe benefits is not in the best interest of our employees.

Yours very truly,

Patrick J. Boyle
Financial Planning Manager

PJB/cjc

ALLEGHENY LUDLUM STEEL CORPORATION

HARRY P. HANLEY, CLU
DIRECTOR-EMPLOYEE BENEFITS
412-562-4376

EXECUTIVE AND GENERAL OFFICES
20TH FLOOR OLIVER BUILDING
PITTSBURGH, PENNSYLVANIA 15222
412-562-4050

August 9, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

We appreciate the opportunity to provide the Senate Finance Committee with a written statement for inclusion in the record of the Committee's hearings held on July 26, 27 and 30 regarding the tax status and cost of employee benefit plans.

At Allegheny Ludlum Steel Corporation, we have provided employee benefit plan protection for our hourly and salary rated employees for over fifty years. We were motivated to provide such plans in order to meet the needs of our employees:

- Because of their inability to work as a result of an illness or accident.
- Because of their premature death.
- Because of their retirement from active employment and need for income replacement.
- Because of their medical and dental costs associated with an illness or accident to them or to a member of their family.

We were also required by Federal and State legislation to provide various benefit plans and plans were also instituted as a result of collective

bargaining agreements. As a responsible employer in the many communities we serve, it was also good business to provide our employees with above average employee benefit plan protection. THEREFORE, WE WERE NOT MOTIVATED BY FEDERAL LEGISLATION AND REGULATIONS to provide most of the plans we sponsor.

The major part of our Company's expenses for employee benefit plans fall into the areas of health care and retirement benefits. For 1983, our annual pension contributions were in excess of $23 million with over 65% of the amount going towards funding the future benefits for hourly rated employees and the balance for salaried employees. In pension benefit payments alone for 1983, we paid out over $30 million with 68% going toward benefit payments for retirees and surviving spouses of hourly rated employees.

For health care expenses in 1983, the Company spent more than $14.6 million with $7.9 million going toward the coverages for hourly rated employees and their dependents and $2.4 million for salary rated employees and their dependents plus $4.3 million for both hourly and salaried retirees.

We feel that your Committee should review the current status of how benefits are taxed under our plans and other Corporate plans. In some cases, tax revenue may be considered lost at the point of contribution by the Company but the payment of benefits causes a taxable event.

For Example:

1) Group Life Insurance - Beyond the amount purchased for the active employee by the Company, he or she can buy additional coverage only with after-tax dollars. An employee whose Company purchased insurance amount exceeds $50,000 incurs imputed income each year and now, under DEFRA, a retiree may incur imputed income.

2) Wage Continuation in Cases of Disability

   - When full salary is continued both F.I.T. and FICA taxes are paid.

- When weekly sickness and accident benefits are paid (where benefits are less than full wages) both FIT and FICA taxes are paid.
- When long term disability plan benefits are paid, such income is subject to taxation. All benefit payments are reported to the government on IRS Form W-2 or W-2P for all payees.

3) Wage Continuation in Case of Job Loss - Severance payments and Supplemental Unemployment Benefit Plan payments are both subject to current taxation.

4) Pension Plan - Although retirement plan contributions are not taxed to the employee when they are made by the Company, they are certainly subject to taxation when received. In fact, there is mandatory FIT withholding from all pension payments unless specifically waived, in writing, by the retiree or the surviving spouse.

5) Current Federal Tax law encourages employees to save for their future welfare and we provide the defined contribution plans so that employees may elect to participate in such plans. But, Federal tax law also provides for the taxation of in-service withdrawals and final distributions made from such IRS "qualified plans."

Historically, our Federal Government has encouraged it citizens to become financially independent and our tax laws and regulations have reflected this desire. As a Company, through our many employee benefit plans, we provide a sense of dignity to our active and retired employees. We encourage the Senate Finance Committee to explore the beneficial impact Company sponsored employee benefit plans have had on their employees, the economy and on the Federal Government. However, because of repeated changes to the tax laws and regulations in recent years, the day to day administrative costs

to provide these benefit plans has risen dramatically and the Corporate employee benefit community needs a moratorium on tax law changes in order to digest the current law and regulations and to improve the efficiency of plan design, communication and administration.

This letter is respectfully submitted for the Senate Finance Committee's consideration.

Very truly yours,

H. P. Hanley

Harry P. Hanley
Director, Employee Benefits

HPH/tas

CC: The Honorable H. John Heinz, III
The Honorable Arlen Spector
The Honorable Dan Quayle
The Honorable Richard Lugar
The Honorable Christopher Dodd
The Honorable Lowell P. Weicker, Jr.

ALUMINUM COMPANY OF AMERICA
ALCOA BUILDING
PITTSBURGH, PENNSYLVANIA 15219

1984 AUG -8 AM 9:37

CHARLES W. PARRY
Chairman and Chief Executive Officer

1984 August 07

The Honorable Bob Packwood
United States Senate
Committee on Finance
Washington, D.C. 20510

Dear Senator Packwood:

Aluminum Company of America ("Alcoa") appreciates this opportunity to submit written comments concerning possible fringe benefit legislation. The recent IRS ban against cash-outs in §105 medical reimbursement accounts is a salient issue for Alcoa.

While we support the IRS' effort to correct abusive benefit arrangements, we believe the IRS §125 proposed regulations go too far when nonabusive §105 plans, such as Alcoa's Benefits Security Accounts, are adversely affected. We, therefore, urge the Congress to affirm the propriety of cash-outs in nonabusive medical benefit accounts.

DESCRIPTION OF ALCOA BENEFITS SECURITY ACCOUNTS

The Alcoa Benefits Security Account was established in connection with a new comprehensive medical plan with deductibles and co-payments which replaced a first dollar medical reimbursement plan. The savings that were anticipated to result from the higher deductibles and copayments were placed in the new reimbursement accounts. The Benefits Security Account is not a zero balance reimbursement account ("ZEBRA") nor is it a salary reduction plan.

Alcoa's new medical program covers 13,000 union and 9,000 salaried employees. Each year about $58 per month up to $700 annually is credited to a covered employee. Participation in the account is mandatory and reimbursements from the account are available only for qualified medical expenses incurred during the year. Any unused amount is paid to the employee as taxable income as soon as administratively feasible following the end of

the plan year. We view the "cash-out" provision as essential to our health care cost containment effort.

Alcoa's plan covering bargaining unit employees was negotiated in 1983 as part of the collective bargaining agreements between the Company and the following unions:

The International Union, United Automobile, Aerospace and the Argricultural Implement Workers of America,

The Aluminum, Brick and Glass Workers International Union,

The Aluminum Trade Council,

The International Brotherhood of Electrical Workers A.F.L.-C.I.O.-C.L.C.,

The International Union, United Plant Guardworkers of America,

The International Diesinkers' Conference,

The International Brotherhood of Teamsters, Chauffeuers, Warehousemen and Helpers of America,

The National Industrial Union,

The Brickmasons, Masons, Plasterers, Marble Masons and Tilesetters Union,

The Office and Professional Employees International Union.

Under the current agreement, union employees will participate in the Benefits Security Account for two plan years. While the majority of our union employees will participate from 1984 June 01 to 1986 May 31, some union employees will not begin participation until 1984 September 01 and still others will not participate until 1984 December 01. Thus, the special transition rule recently provided by the Congress does not cover all of our Company's union plans for one plan year even though "substantial implementation" costs for these plans were incurred prior to 1984 February 10.

The goal of Alcoa's new medical plan is also one of the nation's goals -- health care cost containment. The new plan is not and never was tax motivated. It is not an attempt to recharacterize taxable compensation as tax-free medical reimbursements. As mentioned in the attached Alcoa 1984 Second Quarter Shareholder Report:

> "Alcoa recognizes that unchecked, spiraling health care costs impede the Company's ability to compete in the price-conscious world market place. The company is taking steps to remedy the rising cost situation both inside and outside Alcoa . . . . Cost containment strategies at Alcoa are aimed at two areas: reducing utilization of medical benefits [through the Benefits Security Account] and promoting alternative health care delivery systems [such as HMO's]."

While employees have resisted such efforts, U.S. business has been determined to push harder for all employees to bear a larger share of medical costs. The Company's Benefits Security Accounts are designed to ease the acceptance of deductibles and co-payments by employees when "first-dollar coverage" is initially rescinded. Without the cash-out provision, the employee has a disincentive to be an economical health care consumer.

It is estimated that the new Alcoa medical plan will reduce total plan costs by 7% to 14%, due solely to reduced health care utilization. This is health care cost containment and is good health policy. As indicated in the attached article from the PITTSBURGH POST-GAZETTE, dated May 22, 1984, citing Alcoa Vice-Chairman James S. Pasman's address before the 1984 Pennsylvania Governor's Conference, health care bills in Pennsylvania alone have reached more than $12 billion per year. On a country-wide basis, this cost has reached a staggering amount of over $355 billion per year, nearly one-third of which is borne by private sector employers.

From a Federal revenue standpoint, medical benefit accounts which replace first dollar medical plans do not erode the tax base but, in fact, enhance it. To the extent the employer saves medical costs, it has less tax deductions and therefore more taxable income. Sharing this cost savings with employees replaces tax-free dollars (i.e., amounts spent for medical care) with taxable dollars (i.e., savings paid to employees in the form of taxable income). The cash payout fuels the cost-saving feature; without the cash payment, the cost-saving incentive is destroyed. Under these circumstances, we are confident that any

perceived tax abuse situations can be resolved without changing the tax rules (albeit mid-stream) on legitimate medical arrangements such as the new Alcoa program.

The Service's position on cash pay-out type medical plans is of doubtful validity under existing court decisions and revenue rulings. See, for example, Rev. Ruls. 65-275, 1965-2, C.B. 385 and 78-392, 1978-2, C.B. 252 which should permit cash-outs under §105 plans without adversely affecting the tax-free status of medical reimbursements. In the interest of simplicity, while at the same time addressing the clear tax abuse situations, legislation should be enacted to approve non-abusive medical accounts with cash-out features. A reasonable safe-haven dollar cap could be included for such non-abusive accounts.

From a pure fairness standpoint, we ask the Congress to alternatively place a moratorium on the §125 regulations as they apply to medical plans that have cash-out features. Such a moratorium should last until the results of the legislatively mandated study into the impact of flexible spending arrangements on health care cost containment have been evaluated by the Congress. In no event, however, should the moratorium be allowed to expire at a time which would adversely affect any plan which was initiated under or in conjunction with a collective bargaining agreement entered into on or before January 01, 1984, for the normal duration of such agreements. It is only proper that the tax rules applicable at the time such bargaining agreements were executed not be changed after the fact and without a full debate of the relevant legal issues involved.

We stand ready to assist the Congress to help resolve constructively this very sensitive employee benefit issue in the best interests of all concerned.

Sincerely,

ALUMINUM COMPANY OF AMERICA

Charles W. Parry
Chairman of the Board
and Chief Executive Officer

Attachments

Pittsburgh Post-Gazette

1984 MAY 22

James S. Pasman Jr.

Controlling health costs

As medical science continues to expand the nearly miraculous advances of transplants, implants and microsurgery, medical finance actually threatens the system as we know it.

In Pennsylvania, our health-care bills have reached more than $12 billion a year. On a national basis, Americans will pay over a billion dollars a day in medical bills.

Why have health-care costs risen so rapidly?

One reason is the expansion of employee medical plans which provide first-dollar coverage. That means every cent is covered by employers and that providers of health care are compensated for the services they deliver on the basis of costs determined after the care has been delivered.

This well-intentioned system, — created by employers, labor, insurance companies and governments — leaves consumers little or no economic incentive to choose one health-care supplier over another. The health-care suppliers, in turn, have little incentive to control their costs.

The Business Council of Pennsylvania wants to restore competition to our state's health-care delivery system. Over the last year, government, insurance companies, hospitals, doctors, labor and business have worked together to forge a set of proposals to restructure the health-care system in Pennsylvania.

The proposed changes are in seven areas within the health-care delivery system: (1) controls and incentives for the best use of medical services; (2) constraints on expansions of hospital facilities to assure that only necessary increases are funded; (3) better information on the use and cost of health-care services; (4) reforms in medical malpractice; (5) restructuring of the state's Medicaid system; (6) resistance to further mandated benefits legislation; (7) development of an environment that fosters the growth of alternative health-care delivery systems.

What can consumers do to curtail this rise?

First, we must change our carte-blanche attitude toward health care. Peer reviews, second opinions and pre-admission testing are steps we can take to eliminate costly and unnecessary testing or services.

Next, we need to start making informed decisions about the *kinds* of health care we get. That means better access to existing data on the best sources of cost-effective medical care.

Finally, it's the way we pay for health care that will work most dramatically to lower costs. Participation in Health Maintenance Organizations and other alternative systems can make a difference.

The health-care system in Pennsylvania needs diversity and competition to work at its best. We call on all Pennsylvanians to support the Business Council's proposals. Together, we can build a *healthy* health-care system for all of us.

James S. Pasman Jr. is vice chairman and director of Alcoa. These are excerpts from his address to the 1984 Governor's Conference on Alternative Health Delivery Systems.

ALCOA

Shareholder Report for the Second Quarter — Aluminum Company of America

Financial Highlights

For the period ended June 30, 1984

Second Quarter	1984	1983
Sales and operating revenues	$1,452,333,608	$1,257,909,066
Net income	$112,846,040	$34,631,702
Per common share	$1.38	$.43
Primary aluminum production (metric tons)	362,000	293,000
Aluminum product shipments (metric tons)	422,000	435,000
Six Months	**1984**	**1983**
Sales and operating revenues	$2,935,681,148	$2,400,081,833
Net income	$210,646,589	$20,304,189
Per common share	$2.58	$.24
Primary aluminum production (metric tons)	718,000	564,000
Aluminum product shipments (metric tons)	871,000	867,000
Return on average shareholders' equity (annualized)	12.7%	1.3%
Return on average invested capital (annualized)	10.7%	3.1%

Operating Highlights

Camargo Correa to invest in Alcoa Aluminio (page 5)

Proppant plant expansion begins (page 5)

Caravan to demonstrate fuel savings of compressed natural gas (page 5)

Alcoa attacks rising health care costs (page 6)

Directors declare dividends

On July 6, the board of directors declared a quarterly dividend of 30 cents a share on Alcoa common stock. The dividend is payable August 25, 1984 to shareholders of record at the close of business on August 3, 1984. The dividend is unchanged from the previous quarter.

The directors also voted a regular dividend of 93¾ cents a share on Alcoa's $3.75 cumulative preferred stock, payable October 1, 1984 to shareholders of record on September 14, 1984.

To Fellow Alcoa Shareholders:

Improved prices on many mill products, greater operating efficiencies and higher productivity contributed to second quarter 1984 earnings for Alcoa of $112.8 million, or $1.38 a common share. In the second quarter of 1983, Alcoa earned $34.6 million, or 43 cents a common share.

Primary aluminum products accounted for 14 percent of total shipments in the 1984 quarter compared with 18 percent in the 1983 quarter.

Although shipments declined six percent from the first quarter of 1984, sales and operating revenues were only slightly below the record set in the first quarter.

Equity earnings in the second quarter were level with the 1984 first quarter, excluding a nonrecurring gain of $5.3 million in the first quarter from a real estate transaction. Earnings from Alcoa of Australia, before foreign currency exchange adjustments, were lower due to continuing soft prices for alumina and aluminum.

Ingot price decline continues

Ingot prices continued to decline in the second quarter. The U.S. spot price for primary aluminum ingot was 62 cents a pound at the end of June, compared with 71½ cents a pound at the end of March.

Our inventories increased slightly, and we shut down two potlines at Vancouver (Wash.) Operations and one half potline at Tennessee Operations in June. Our U.S. smelting rate is now 92 percent of capacity, down from 99 percent.

Prices have softened on some common alloy products that are closely tied to ingot prices. Demand for some products is down from the high level of the previous quarter, reflecting price-hedge buying earlier this year.

We expect the continuing economic recovery in much of the world to bolster worldwide aluminum demand later this year.

Charles W. Parry
Chairman of the Board and
Chief Executive Officer

July 31, 1984

Statement of Consolidated Income (unaudited)

Aluminum Company of America and consolidated subsidiaries

(in thousands, except per share amounts)	Second quarter ended June 30 1984	1983	Six months ended June 30 1984	1983
Sales and operating revenues	$ 1,452,333	$1,257,909	$ 2,935,681	$2,400,082
Other income	9,213	5,631	38,113	12,374
	1,461,546	1,263,540	2,973,794	2,412,456
Cost of goods sold and operating expenses	1,066,636	1,002,843	2,221,256	1,973,188
Selling, general administrative and other expenses	89,836	81,732	178,320	165,531
Provision for depreciation and depletion	85,344	84,130	170,272	168,503
Interest expense	48,256	49,180	97,559	97,598
Taxes other than payroll and severance taxes	17,795	16,028	36,215	31,674
	1,307,867	1,233,913	2,703,622	2,436,494
Income (loss) before United States and foreign taxes on income	153,679	29,627	270,172	(24,038)
Provision (credit) for United States and foreign taxes on income (a)	63,853	5,900	110,800	(18,700)
Income (loss) from operations	89,826	23,727	159,372	(5,338)
Equity earnings (losses) from entities not consolidated:				
Alcoa Aluminio S.A.	4,557	326	10,677	3,419
Alcoa of Australia Limited	13,039	5,906	22,568	18,988
Alcoa Properties, Inc.	(110)	2,359	3,778	2,318
Other entities owned 20 percent or more	5,534	2,314	14,252	917
	23,020	10,905	51,275	25,642
Net income for the period (b)	$ 112,846	$ 34,632	$ 210,647	$ 20,304
Earnings per common share (b)	$1.38	$.43	$2.58	$.24
Average number of common shares outstanding			81,037	79,025

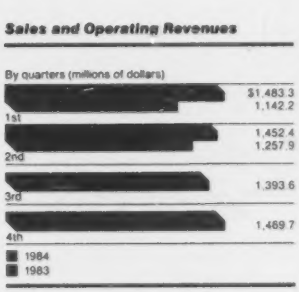
Footnotes and supplemental information:

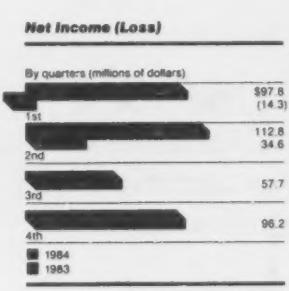
(a) The tax provision for the 1984 period is based on the company's estimated effective tax rate for the full year. The difference between the estimated effective tax rate of 41.0 percent and the statutory rate of 46 percent is primarily due to investment tax credits. The provision for the 1983 period was based upon the statutory tax rate, adjusted principally for investment tax credits earned during the portion of the year expired.

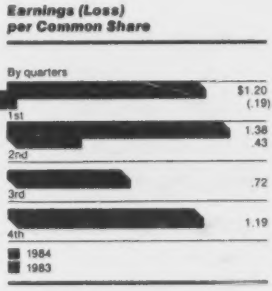
(b) Shown below is supplemental information on the results of operations comparing the last-in, first-out (LIFO) method to the average cost method, using current standard production costs for inventory valuation. The company's financial statements and tax returns are prepared principally on the LIFO method, and this information is not intended to replace the primary LIFO-based published financial statements. The company believes the LIFO method results in a better matching of costs and revenues and prefers this method. The comparison is presented to provide users with supplemental information to compare with operating results of companies not on LIFO.

	Second quarter ended June 30				Six months ended June 30			
	1984		1983		1984		1983	
	LIFO	Avg. Cost	LIFO*	Avg. Cost	LIFO	Avg. Cost	LIFO*	Avg. Cost
Cost of goods sold and operating expenses	$1,066,636	$1,063,310	$1,002,843	$1,060,004	$2,221,256	$2,208,575	$1,973,188	$2,065,926
U.S. and foreign taxes on income	63,853	65,350	5,900	(20,400)	110,800	116,600	(18,700)	(61,400)
Net income (loss)	112,846	114,675	34,632	3,771	210,647	217,528	20,304	(29,736)
Per common share	1.38	1.41	.43	.04	2.58	2.67	.24	(.39)

*Includes inventory profits (after tax) of $6,100 for the quarter and $30,000 for the six months.







Consolidated Balance Sheet (unaudited)

Aluminum Company of America and consolidated subsidiaries

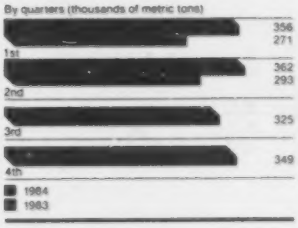
(in thousands, except share amounts)	As of June 30 1984	1983
Assets		
Current assets:		
Cash	$ 31,139	$ 28,137
Short-term investments, at cost approximating market	156,171	238,879
Receivables from customers, less allowances: 1984, $3,824; 1983, $7,314	841,918	736,952
Other receivables	68,583	76,689
Inventories	676,533	500,884
Prepaid expenses and other current assets	52,824	41,736
Total current assets	1,827,168	1,623,277
Investments:		
Alcoa Aluminio S.A.	271,885	209,537
Alcoa of Australia Limited	420,956	391,940
Alcoa Properties, Inc.	141,589	139,062
Other	286,878	225,485
Total investments	1,121,308	966,024
Other assets and deferred charges	158,542	151,974
Properties, plants and equipment, at cost	6,328,083	6,125,090
Less, accumulated depreciation, depletion and amortization	3,053,574	2,918,173
Net properties, plants and equipment	3,274,509	3,206,917
Total assets	$6,381,527	$5,948,192

	As of June 30 1984	1983
Liabilities		
Current liabilities:		
Accounts payable, trade	$ 340,115	$ 271,616
Accrued compensation and retirement costs	142,472	281,201
Taxes, including taxes on income	61,298	11,505
Accrued interest	49,170	49,160
Other current liabilities	127,738	89,055
Long-term debt due within one year	51,741	35,703
Total current liabilities	772,534	738,240
Long-term debt, less amount due within one year	1,817,379	1,693,457
Noncurrent liabilities and deferred credits	154,143	131,133
Future taxes on income	449,341	324,963
Total liabilities	2,993,397	2,887,793
Shareholders' equity		
Serial preferred stock, $100 par value, 660,000 shares authorized; $3.75 cumulative preferred series, 659,909 shares outstanding	65,991	65,991
Class B serial preferred stock, $1 par value, 10,000,000 shares authorized	—	—
Common stock, $1 par value, 300,000,000 shares authorized; Outstanding—81,065,490 shares (79,145,402 in 1983)	81,065	79,145
Additional capital	395,111	334,942
Translation adjustment (a)	(39,653)	(37,173)
Retained earnings	2,885,646	2,617,494
Total shareholders' equity	3,388,130	3,060,399
Total liabilities and shareholders' equity	$6,381,527	$5,948,192

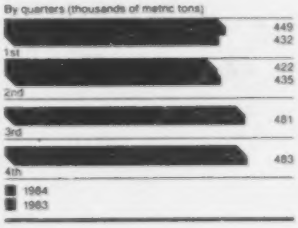
Footnote:

(a) Included is an after-tax amount of $(25,073) at June 30, 1984 and $(28,361) at June 30, 1983 resulting from the devaluation in early 1983 of the Venezuelan currency. With that devaluation, the Venezuelan Government decreed a preferential rate of exchange for the repayment of approximately $102,000 of U.S. dollar obligations of the company's Venezuelan affiliates provided the obligations are deferred and repaid over a period of five years beginning in 1986. During the 1984 first quarter, the government significantly increased the exchange rate relating to the payment of interest on these obligations and imposed other conditions on availability of the preferential rate. As a result of these actions, the affiliates are incurring losses which have an adverse effect on the company's investments in Venezuela.

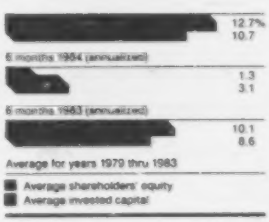
Primary Aluminum Production



Aluminum Product Shipments



Return on Shareholders' Equity and Invested Capital



Statement of Changes in Consolidated Financial Position (unaudited)

Aluminum Company of America and consolidated subsidiaries

(in thousands)	Six months ended June 30 1984	1983
Funds provided from operations		
Net income	$ 210,647	$ 20,304
Items not requiring an outlay of cash:		
Depreciation and depletion	170,272	168,503
Future taxes on income	71,081	4,401
Equity earnings (before provision for U.S. taxes) in excess of dividends received	(43,892)	(36,714)
Other	(5,271)	15,109
Funds provided from operations	402,837	171,603
Other funds provided (used)		
(Increase) reduction in working capital*	(197,491)	271,059
Book value of asset disposals	50,366	3,672
Other	(32,661)	(14,984)
Dividends paid to shareholders	(49,865)	(48,641)
Funds available before financing activities	173,186	382,709
Funds from financing activities		
Common stock issued	4,427	6,523
Additions to long-term debt	22,010	38,061
Payments on long-term debt	(38,213)	(52,142)
Total funds provided, excluding cash items	161,410	375,151
Funds used for investment activities		
Additions to properties, plants and equipment	227,794	168,861
Additions to investments, net	17,532	19,141
Total funds used for investment activities	245,326	188,002
Components of translation adjustment in shareholders' equity		
Reduction in investments	2,056	54,390
Change in future income taxes	(3,909)	(25,771)
Translation adjustment in shareholders' equity	(4,589)	(30,253)
Other	6,432	1,634
Effect on funds provided or used	—	—
Increase (reduction) in cash and short-term investments	$ (83,916)	$187,149
***Working capital components** (excluding cash, short-term investments and current portion of long-term debt)		
Reduction in receivables	$ 34,170	$125,972
(Increase) reduction in inventories	(125,100)	112,535
(Increase) reduction in prepaid expenses and other current assets	(9,481)	258
Increase (reduction) in accounts payable and accrued expenses	(127,459)	81,503
Increase (reduction) in taxes, including taxes on income	30,379	(49,209)
(Increase) reduction in working capital	$(197,491)	$271,059

Buy additional common stock; Alcoa pays fees

Alcoa's Shareholder Investment Service offers registered shareholders of Alcoa common stock two easy ways to buy additional shares of Alcoa common stock—and Alcoa pays all the fees. Through the dividend reinvestment plan, dividends are automatically reinvested to purchase additional shares of stock. With the cash payment plan, shareholders buy additional shares by making direct cash payments ranging from $25 to $1,000 in any one month. Participation in either program can be terminated at any time.

Participating shareholders receive regular reports on the number of transactions completed between stock purchases and the current number of shares in the account. The amount of dividends credited to the account is reported each year.

To receive an authorization card and brochure explaining the Service, contact Manager–Treasury Services, 936 Alcoa Building, Pittsburgh, PA 15219, (412) 553-4432.

Alcoa, the AGA, Consolidated Natural Gas rally for CNG

Alcoa, the American Gas Association, Consolidated Natural Gas Company and 27 other utilities believe so strongly that compressed natural gas (CNG) is superior to gasoline as a vehicle fuel, they're going to drive all over the country to prove it.

A caravan of CNG-powered vehicles, equipped with fuel tanks made of Alcoa aluminum, and an exhibit trailer will leave Washington D.C. on September 6 for a two-month, 16-city "Rally for Fuel Savings." The rally's goal is to convince fleet owners, government officials and business leaders that CNG is a cleaner, cheaper and more efficient vehicle fuel than gasoline.

Compressed natural gas costs about 70 cents a gallon less than gasoline. Fleet owners have reported savings of $1000 annually per vehicle. And because CNG is clean burning, it helps engines last longer and eliminates pollution.

Alcoa makes the CNG fuel tanks at CNG Cylinder Corp., a subsidiary in Long Beach, Calif. Extrusions for the tanks are supplied by Lafayette (Ind.) Works.

Camargo Correa will buy up to 35 percent of Alcoa Aluminio

One of Brazil's largest private companies, Construcoes e Comercio Camargo Correa S.A., will invest as much as $240 million over the next two years in Alcoa Aluminio, representing as much as a 35% interest in Alcoa's Brazilian subsidiary. The money will be used to build Alcoa Aluminio's portion of a second potline at the Alumar project near São Luis, which includes a 100,000 metric ton per year potline scheduled for inauguration in August. The second potline, a 135,000 metric ton per year line, should be completed in late 1986. The Alumar Consortium is a joint venture of Alcoa Aluminio and Billiton Metais S.A.

Investor briefs

> Norton-Alcoa Proppants broke ground June 25 for a $50 million expansion of its proppant plant in Fort Smith, Ark. The expansion will triple annual capacity there to 300 million pounds. Proppants are tiny bauxite beads that prop open rock fractures to increase flow rates from oil and gas wells.

> Alcoa agreed to sell its 30 percent interest in the Twin Oak Steam Electric Station and feeder lignite reserves in Robertson County, Texas to subsidiaries of Texas Utilities Company, the 70 percent owner. Alcoa believes its presently committed power supplies are sufficient for its projected power needs in Texas. If approved by the Public Utility Commission of Texas, the sale will be retroactive to April 1, 1984.

Auto racer Bobby Unser and Alcoa President Fred Fetterolf motor around Pittsburgh in a Ford Ranger fueled by compressed natural gas, carried in cylinders made by an Alcoa subsidiary.

New officer designations, vice presidents announced

On July 6, the board of directors approved the creation of two new officer designations to reflect the company's intent to move decision-making closer to its business units and to recognize the major staff functions.

Named new group vice presidents were vice presidents Harold S. Evans, international; Clyde R. Gillespie, engineered products; Ronald R. Hoffman, flat-rolled products; and Vincent R. Scorsone, primary metals.

Named senior vice presidents were vice presidents Richard L. Fischer, general counsel; Donald R. Whitlow, employee relations; and James W. Wirth, finance.

Also on July 6, Controller Earnest J. Edwards, Treasurer Robert F. Slagle and Alcoa Laboratories Director Peter R. Bridenbaugh were elected vice presidents by the board.

Mr. Edwards joined Alcoa in 1965 as a controllership trainee at Cleveland (Ohio) Works. In 1977, he became controller–forgings division and, in 1979, controller–flat-rolled products division. He was named general manager–Alcoa Management Information Systems in 1981 and was elected controller in 1982.

Mr. Slagle joined Alcoa in 1964 as a trainee at Tennessee Operations. He was manager–international planning and later assistant district sales manager, Atlanta, before becoming director and president of Alcoa Aluminio in 1976. In 1980, he was named general manager–technology marketing division and was elected treasurer in 1982.

Dr. Bridenbaugh joined Alcoa in 1968 at Alcoa Laboratories, New Kensington, Pa. He was manager–fabricating metallurgy at the Labs and manager–quality assurance at Tennessee Operations before becoming operations director–mill products research and development at the Labs in 1981. He was named director of the Labs in 1983.

Earnest J. Edwards

Robert F. Slagle

Peter R. Bridenbaugh

Prognosis Is Good As Alcoa Battles Rising Health Care Costs

Headlines confirm daily what most Americans' checkbooks have been telling them since the mid-60s: "Health Care Costs Rising Faster Than Any Other Commodity or Service."

Americans spent $42 billion for health care in 1965. In 1983, we spent $355 billion, a 770 percent increase. In other words, Americans now spend almost $1 billion a day on health care. That constitutes a Code Blue to many companies such as Alcoa, which pay nearly 30 percent of the nation's health care tab. In addition, corporations pay an estimated $100 billion annually in absenteeism, long-term disability and premature death costs.

Alcoa recognizes that unchecked, spiraling health care costs impede the company's ability to compete in the price-conscious world marketplace. The company is taking steps to remedy the rising cost situation both inside and outside Alcoa.

In 1983, Alcoa spent over $100 million to provide health care to its 32,500 U.S. employees and their dependents and to 20,000 U.S. retirees and their dependents. The increase in the cost of providing health care to these groups on a per active employee basis was double the rise of the Consumer Price Index from 1982 to 1983.

Cost containment strategies at Alcoa are aimed at two areas: utilizing medical services more effectively and promoting alternative health care delivery systems.

Benefits restructured

Until 1983, Alcoa employees were the recipients of a growing list of first-dollar medical coverages. First-dollar coverages cost the employee nothing.

Alcoa paid virtually all expenses that employees were charged for health care. More diagnostic tests meant more money for the hospital or doctor.

"Providers responded with great enthusiasm to help employees spend Alcoa's health care money," Richard G. Wardrop, Alcoa's general manager of compensation and benefits, recently told a Congressional committee investigating health care costs. "First-dollar coverage fueled demand. We needed a strategy to again involve employees in health care decisions so that utilization could be reduced."

Richard G. Wardrop

The strategy is to replace first-dollar coverage with coverage that requires deductibles and co-payments. Nearly two-thirds of Alcoa's U.S. employees, after satisfying a deductible, will pay 20 percent of all covered medical expenses, with a $700 ceiling. Alcoa pays 100 percent of covered expenses above the $700 ceiling.

In conjunction with the plan change, Alcoa established a $700 reimbursement account for each employee. It can be used to pay deductibles, co-payments and certain other medical expenses. Any amounts not spent in the plan year on qualified medical expenses will be paid to the employee as taxable income.

Alcoa expects this new system will help employees become wiser consumers of health services and will reduce Alcoa's medical benefits plan costs by 7 to 14 percent.

Alternative reimbursement systems

In addition to first-dollar coverages, the traditional fee-for-service system has pushed up health care costs. So, over three years ago, Alcoa endorsed the use of alternative delivery systems. The health maintenance organization, or HMO, is one such system.

Historically, payment to the hospital or doctor has been made on a fee-for-service basis. In an HMO, a prepaid fee covers all services contracted for by the employer. The prepaid system profits from cost-conscious behavior, while the fee-for-service system rewards ever-increasing cost behavior.

"We want to develop a network of HMOs to give employees a choice of competing health care plans," Mr. Wardrop said. "Until we change the reimbursement system for a significant number of employees, our costs will probably continue to rise at unacceptable rates."

Geography has hampered rapid enrollment in HMOs by Alcoans. Some locations are not serviced by a convenient HMO. However, nearly 3000 employees at 10 locations are members of HMOs. More than 1800 of Davenport (Iowa) Works' 3100 employees use an HMO. At Corona (Calif.) Works, over 180 of the 280 employees use an HMO.

Cost containment work is ongoing at all U.S. locations. Plant managers are reducing their locations' sickness and accident costs. Labor-management teams at some plants are developing cost containment strategies and are teaching employees to be better health care consumers.

Outside Alcoa

Alcoa is looking past its own income statement to the effects health care costs have on society in general.

The company is active on the national scene through the Washington Business Group on Health, an organization that works to create an open marketplace for health care. Mr. Wardrop is a director.

Alcoa's expertise is evidenced at the state level as well. In Pennsylvania, for example, Vice Chairman James S. Pasman, Jr. chaired the Pennsylvania Business Council's health subcommittee. He recently summarized the committee's work in a speech to Pa. Governor Richard Thornburgh's Annual Conference on Alternative Health Delivery Systems.

The subcommittee proposed a combination of voluntary action and regulatory reform to provide incentives for the health care system in Pennsylvania to function more efficiently. Among other suggestions, the subcommittee recommended limiting hospital capital expenditures.

James S. Pasman, Jr.

In its headquarters city of Pittsburgh, Alcoa is active in the Pittsburgh Business Group on Health, an organization it helped form that seeks to reduce hospital over-use and increase participation in prepaid systems. Many other Alcoa locations are active in similar business/medical coalitions.

At Alcoa, the cost of health care is more than a malady about which we wonder and shake our heads, uncertain of what treatment to prescribe. Here, it's a condition on the road to recovery.

Shareholder information

Common stock
Ticker tape symbol **AA**
Traded on the New York Stock Exchange and the European stock exchanges in Basel, Geneva, Zurich, Lausanne, Frankfurt and London

Closing price as of 6/29/84: $34

High/low price range
Second quarter 1984: $40⅛ high; $31⅛ low
Last 12 months: $48⅛ high; $31⅛ low

Book value per share
As of 6/30/84: $40.98

Composite average daily volume
Second quarter 1984: 283,432 shares
Last 12 months: 271,564 shares

Common stock dividend
Record date: 8/3/84
Payment date: 8/25/84 ($.30 per share)
This will be the 180th consecutive Alcoa dividend.
Yield for 12 months ending 6/30/84: 3.5%

Corporate headquarters
Aluminum Company of America
1501 Alcoa Building
Pittsburgh, Pennsylvania 15219
Office of the Treasurer (412) 553-4705
Office of the Secretary (412) 553-4707
Shareholder questions should be directed to the Secretary.

Aluminum Company of America
1501 Alcoa Building
Pittsburgh, PA 15219

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION
ACTWU
AFL-CIO, CLC
915 SIXTEENTH ST., N.W. • WASHINGTON, D.C. 20006
(202) 628-0214

MURRAY H. FINLEY, President
JACOB SHEINKMAN, Secretary-Treasurer
SCOTT HOYMAN, Executive Vice President

ELIZABETH M. SMITH, Director
Legislative and Political Education Department

July 27, 1984

STATEMENT OF THE

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION
AFL-CIO, CLC

MURRAY H. FINLEY, PRESIDENT
JACOB SHEINKMAN, SECRETARY-TREASURER

to the

COMMITTEE ON FINANCE

UNITED STATES SENATE

S. 2680, A Bill to Provide the President with Authority to Accelerate Certain Staged Rate Modifications to the Tariff Schedules of the United States

ACTWU opposes enactment of S. 2680 during a time when the textile/apparel sector faces a trade deficit of such staggering proportions. In 1983, textile and apparel imports increased by 25 percent over 1982. In the first 4 months of 1984, textile/apparel imports increased by 49 percent over the same 4 months in 1983. Since 1980, we have lost over 200,000 jobs in the textile/apparel sector. Accelerating the tariff cuts will only stimulate imports -- and thus more job losses -- at a time when our industry and its workers are already reeling from the surge in textile and apparel imports.

During the MTN negotiations, the United States cut its textile and apparel tariffs an average of 4.5 percent. This is a greater cut than those made by any of our major trading partners -- Japan's averaged 2.5 percent and the European Community's averaged 3.5 percent. S. 2680 seeks to accelerate U.S. tariff cuts on textiles and apparel still further.

Moreover, textile products are subject to the Multifiber Arrangement (MFA) which will expire July 1986. Section 504 of the Trade Agreements Act of 1979 provides for a snapback of tariff rates on apparel and textile products to January 1, 1975 rates if the MFA is not renewed or a suitable successor arrangement is not in place. Section 504 is only operative, however, before the final rate of duty for textiles and apparel has become effective. If S. 2680 is enacted, the MFA would expire after most of the phased tariff reductions have been completed. Thus, enactment of this bill will mean greatly diminishing this country's leverage to secure renewal of the MFA or a suitable successor arrangement.

The Amalgamated Clothing and Textile Workers Union, along with many other organizations, supported the MTN. We did so based on the commitment that its tariff cuts would be phased in over a specified period of years. By requesting authority to accelerate the scheduled cuts in tariffs, the U.S. Government is breaking faith with those of us who were part of the process which brought about the successful conclusion of these negotiations.

We urge the Committee to reject S. 2680.

S. 2712, A Bill to Return the Ad Valorem and Specific Duties on Necktie Imports to the Levels in Effect as of January 1, 1981, for a Period of 5 Years

Many of ACTWU's members work in the necktie industry and the recent dramatic rise in necktie imports has made these workers very concerned about their future livelihood in this industry. A number of these workers have not developed skills which will be of much use to them outside the neckwear industry. Imports which cause job losses in this industry will lead to permanent displacement for many workers.

S. 2712 would temporarily increase duties on necktie imports to 1981 levels for a period of 5 years. The legislation is necessary because of the unprecedented increase in necktie imports which we could not have foreseen during the MTN negotiations when necktie duties were so drastically cut. Imports increased by 250 percent from 1980 to 1983. And the first five months of 1984 paints an even gloomier picture -- imports of neckties were 133 percent greater than the first five months of 1983. Import penetration has grown from just over 4 percent in 1980 to a projected 23 percent for 1984. Imports will also capture most of the projected growth in the U.S. market this year. We believe S. 2712 will help stabilize the necktie industry during this period of overwhelming import growth and help it adjust to new market conditions. ACTWU, therefore, urges the Subcommittee to pass S. 2712.

S. 2839, A Bill To Amend the Tariff Schedules of the United States Regarding the Classification of Certain Articles of Wearing Apparel

ACTWU strongly supports enactment of S. 2839, which closes a tariff loophole which allows garments classified as apparel "sets" to enter the United States at a lower rate than most individual garments.

As a result of the MTN tariff concessions, a lower duty rate was created on garments which were classified as "sets" than on the same garment which was classified individually. As a result, imports of so-called "sets" have been on the upswing in order to take advantage of the lower duty rates. S. 2839 closes this loophole by defining what constitutes an apparel "set" for tariff purposes. ACTWU urges enactment of S. 2839 to close what has clearly become a tariff loophole used by foreign apparel producers and domestic importers to avoid paying proper duty rates.

STATEMENT FOR THE RECORD
AMERICAN ACADEMY OF ACTUARIES

TO THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE COMMITTEE ON FINANCE

HEARINGS ON FRINGE BENEFITS
JULY 31, 1984

Background

On July 26, 27, and 30, the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance held hearings on the taxation of fringe benefits. The comments below are submitted for the record of these hearings on behalf of the American Academy of Actuaries ("Academy").

Interest of the Academy

The Academy is a professional association of over 7,600 actuaries involved in all areas of specialization within the actuarial profession. Included within our membership are approximately 85% of the enrolled actuaries certified under the Employee Retirement Income Security Act of 1974 (ERISA), as well as comparable percentages of actuaries providing actuarial services for other employee benefit plans such as life, health, and disability programs.

The Academy finds it difficult to comment on tax legislation in general, since we are not advocates on major public policy decisions which are not actuarial in nature. The Academy views its role in the government relations arena as providing information and actuarial analysis to public policy decision-makers, so that policy decisions can be made with informed judgment.

Nevertheless and in spite of the fact that actuarial considerations are unlikely to ever be the driving force behind major decisions on tax policy, actuarial input can be quite useful in shaping and molding tax policy to deal appropriately with the extremely complex, yet vitally important, employee benefits area. For example, the determination of required contribution levels to plans to provide the benefits, setting appropriate reserve levels to meet future obligations, and financial calculations involving the time value of money are all actuarial in nature.

General Comments on Employee Benefit Plans

Employee benefit plans provide an array of insurance and retirement benefits which greatly increase the present and future economic security of millions of Americans. Salary dollars cannot replicate an annuity at retirement that cannot be outlived, life insurance for the family of a deceased worker, the cost of hospitalization in the event of major illness, or income to a disabled worker. Employee benefit plans deliver dollars at the time they are needed most. Moreover, in general, these benefits can be more economically provided on a group basis to an employee workforce than on an individual basis, due to the significant savings in administrative costs and to the stability that comes with a pooling of risks across a broad cross section of employees.

There is no question that the growth of employee benefit plans in the past few decades has been greatly stimulated by tax policy toward those plans. This tax policy has been the result of deliberate Congressional intent which has been demonstrably successful in fostering the development of employee benefit plans. It would be naive and erroneous to assume that employers would continue to provide the same level of benefits in the event that the favorable tax treatment of certain types of employee benefit plans were

significantly curtailed or even eliminated. The pressure from employees with the basic attitude "If I have to pay taxes on it anyway, give it to me in cash" would simply be too great. The end result would be a decline in the level of protection provided by the private sector, inevitably leading to greater demand and strain on governmental programs. Given the financial difficulties facing programs such as Medicare and Social Security, a decline in private sector programs would hardly seem to be in the public interest.

Need for National Policy

We hope these hearings will be useful in focusing attention on the need for a coherent, stable and strongly articulated public policy toward employee benefit plans by the federal government. The fact that no such policy exists leads to a seemingly endless series of ad hoc changes and confused signals toward employee benefit plans. In the tax area alone in just two short years we have seen the Tax Equity and Fiscal Responsibility Act of 1982 and the Deficit Reduction Act of 1984. And now before this last bill has even been printed into final form, Congress is talking about changing it all around again in 1985.

There is a crying need here for more stability in the tax treatment of employee benefit plans. Pension and insurance plans in particular involve long-term arrangements and commitments. Plan sponsors are finding it increasingly difficult to make rational decisions in such a chaotic environment. Much as this continual turmoil may provide additional work for actuaries, it hardly seems to be in the public interest to make the rules so complex and to change them so often that the typical plan sponsor has no chance of coping. The administrative costs of complying with all the changes being imposed on

plans has risen significantly and is increasingly becoming a burden, particularly on small plans.

Tax Exemption vs. Tax Deferral

In some of the debates on tax policy the distinction between tax exemption and tax deferral seems to get lost. Although some employee benefit plans do provide tax exempt benefits, others do not. In particular, the major retirement income programs provide for tax deferral, not tax exemption. Within debates on tax deferral we increasingly hear arguments involving the concept of the "time value of money." This is a concept at the heart of actuarial science.

It is quite true that a dollar to be paid in the future is worth less than a dollar today because of the interest that can be earned in the interim. Translating this into tax policy for the federal government, the argument is heard that $1,000 of taxes today is worth $1,000, but if these $1,000 of taxes can be deferred for ten years their present value is worth only $386 if discounted at a 10% rate of interest. Thus, the argument is made that it is better for the Treasury to get the money now rather than later.

What this analysis overlooks, however, is that in many cases the Treasury will get more than $1,000 at the end of ten years. For example, consider a defined contribution pension plan in which the account balances are growing at a 10% rate of interest. $1,000 in tax deferral will continue to grow in the account and will amount to $2,594, not $1,000, in ten years. The present value of $2,594 discounted for ten years at a 10% rate of interest is exactly $1,000!

In the real world, of course, things are seldom this simple. Differences in value will arise if the rate of accummulation is different than the rate used in computing the present value. Also, there is a question about how the tax rates in ten years which will then apply compare with the tax rates which would apply today. However, the example does clearly illustrate that introducing the concept of the time value of money does not, on its own merits, make a convincing case against tax deferral. It is a valid analytical tool, but must be carefully applied in any analysis to present meaningful comparisons.

Public Sector Programs

If Congress intends to take a comprehensive look at the taxation of employee benefit plans in order to create a more coherent tax policy toward such plans, then it would seem appropriate to consider the tax treatment of public sector programs as part of such a comprehensive review. For example, at the present time the tax treatment of retirement benefits attributable to employer contributions under Social Security is different than for private sector retirement plans. This may or may not be good public policy —— that is not an actuarial judgment. However, we do urge the Congress to review tax policy toward insurance and pension benefits under government programs as well as private sector programs in any comprehensive review of the taxation of employee benefit plans.

It is also important to consider how private sector and public sector programs fit together. For example, the integration of private pension plans with Social Security has been a controversial tax issue for a number of years. Actuarial considerations are vital in structuring sound integration rules for pensions or other employee benefit plans.

Actuarial Issues

There are six actuarial issues related to the general subject of the taxation of employee benefit plans which we address below.

1. Financial Condition

The maintenance of a well-run insurance or pension employee benefit plan involves the determination of both an appropriate contribution level to provide the expected benefits and appropriate reserve levels to cover the accrual of benefit obligations. Both of these are actuarial processes.

Tax policy should recognize the need for these determinations to be made according to sound actuarial principles and practices. Such recognition does exist in the pension area under ERISA. However, that recognition is not as clear in connection with certain insurance programs.

The Academy stands ready to work with Congress and regulatory agencies to define such sound actuarial principles and practices where required. A major priority for the Academy at the present time is the establishment of a structure within our profession to articulate actuarial standards of practice. This structure would be appropriate to deal with issues such as actuarial principles and practices in connection with insurance and pension employee benefit plans. Included in actuarial principles and practices are such matters as disclosure requirements and the content of an actuarial report.

2. Qualifications

Along with a recognition of the need for plans to be operated according to sound actuarial principles and practices there is the need to define the qualifications of the actuaries certifying the plans.

Of course, this need was clearly recognized in ERISA and in that instance Congress chose to create a Joint Board for the Enrollment of Actuaries to examine and license individuals as "enrolled actuaries."

Another example has arisen in the Deficit Reduction Act of 1984. This act provides that in connection with funded welfare benefit plans (including voluntary employees' beneficiary associations (VEBAs) under section 501(c)(9) of IRC) reserves in excess of "safe harbor" limits will be permitted if certified by a "qualified actuary" (to be determined under Treasury regulations).

Academy membership includes actuaries in all areas of practice and serves as the hallmark of a qualified actuary in the United States. However, we recognize that not all actuaries are necessarily qualified for all assignments. Accordingly, our Guides to Professional Conduct contain extensive guidance to ensure that: "The member will bear in mind that the actuary acts as an expert when giving actuarial advice and will give such advice only when qualified to do so."

The Academy has a Committee on Qualifications to address issues such as these. We strongly urge direct participation of the actuarial profession in defining the qualifications of an actuary to engage in any particular assignment. The Academy has a strong commitment to self-regulation and is prepared to work closely with the Treasury if such regulations are to be developed.

3. Actuarial Assumptions

The setting of actuarial assumptions is a key ingredient in any actuarial assignment. The provisions relating to funded welfare benefit plans in the Deficit Reduction Act of 1984 (cited above) require that assumptions be reasonable in the aggregate. This is quite appropriate and follows the precedent set by ERISA in the pension area.

However, the Conference Report goes further and indicates that "in addition to requiring that actuarial assumptions are to be reasonable in the aggregate, Treasury regulations may prescribe specific interest rate and mortality assumptions to be used in all actuarial calculations." Such a simplistic approach would ignore the fact that experience is different from plan to plan for a variety of reasons (age/sex composition of group, nature of work, geographical area, etc.). Attempting to mandate any set of uniform assumptions will inevitably result in inappropriate assumptions being used for large numbers of plans. Setting appropriate actuarial assumptions requires the application of actuarial judgment to fit the facts and circumstances at hand.

We are concerned at the prospect that the Treasury might attempt to prescribe specific actuarial assumptions for funded welfare benefit plans. We believe the approach used in ERISA for setting actuarial assumptions for pension valuations is much more appropriate.

4. Current Tables

Certain portions of the Internal Revenue Code require the use of actuarial tables promulgated by the Internal Revenue Service. Examples are the tables for the taxation of group term life insurance under Section 79, the tables for the taxation of annuities under Section 72, and the tables used for the taxation of life estates and remainders.

Some of these tables have been allowed to get out-of-date. For example, the uniform premium table for group life insurance under Section 79 was changed in 1983, but the prior table had been in effect since 1966, during which time group term life rates dramatically changed. As another example, the current tables under Section 72 have not been changed since their release in 1954.

The use of actuarial tables to compute certain values required in the IRC is quite appropriate, but may appear arcane or even obscure to many taxpayers. Maximum credibility will be achieved if taxpayers perceive that the tables are based on current interest and mortality factors rather than ones that may appear obsolete. Such credibility should be an objective of tax policy.

5. Design Aspects

On occasion, actuarial insights on design aspects of certain tax proposals may be useful. For example, in the Academy testimony to the Senate Committee on Finance on June 22, 1983 on proposals for a health insurance tax cap, our Committee on Health Insurance pointed out some technical flaws with the

proposal to base the tax cap on premiums. The Committee went on to suggest basing it on the richness of coverage provided as an alternative which would avoid these flaws.

(Note: The Academy neither supports nor opposes such a tax cap. This is a public policy decision up to Congress and is not an actuarial issue. However, we are concerned with the technical details of any such proposals and their full ramifications.)

6. Adverse Selection

A rather subtle, but potentially quite important, actuarial concept is the notion of "adverse selection." There is a natural tendency for any person covered, or potentially covered, by an insurance or pension plan to exercise any options available to his or her apparent advantage, i.e. to select against the plan. Within limits, the cost of such adverse selection can be absorbed by a plan. For example, in pension plans with lump-sum options, retirees in poor health will tend to elect lump sums, while those in good health will tend to elect life annuities. In such a case, the plan sponsor has been willing to assume any extra costs involved in allowing such options.

In some cases, however, adverse selection could present more serious problems. For example, consider a voluntary health insurance program with substantial employee contributions required (either directly through payroll deduction or indirectly through a health insurance tax cap). Younger, healthier employees will tend to opt out of the program if they do not perceive they are receiving adequate value for their contributions. If this happens, the group left behind will

increasingly consist of older or less healthy employees, and costs would increase significantly. In extreme cases, this could result in a vicious cycle of further defections of healthy employees as costs rise and spiralling cost increases for remaining particpants, until the entire financial structure of the plan is undermined.

Although the collapse of a plan due to adverse selection alone may appear a bit far-fetched, it is not impossible. On a lesser scale, adverse selection can and does increase the costs of certain plans.

Congress should be careful in structuring tax policy toward employee benefit plans to be aware of such subtle possibilites and not inadvertently undercut the financial strength of plans to pay benefits which have been promised.

Summary

In summary, we encourage Congress to proceed carefully in structuring a rational tax policy for employee benefit plans. To the extent that revenue enhancement is the objective, Congress must weigh this "gain" against the costs if private sector plans are discouraged, and less economic security is thereby provided by the private sector. To the extent that elimination of real or perceived tax abuse is the objective, we strongly encourage Congress to use the scalpel and not the meat ax, since the large majority of benefits under employee benefit plans are not being provided with tax avoidance as the primary motivation.

We appreciate the opportunity to present these comments for the record. The Academy is available to offer an actuarial perspective on the taxation of employee benefit plans in future considerations of such policy. We would be happy to answer any questions or provide further information for the Subcommittee upon request.

Respectfully submitted,

Stephen G. Kellison

Stephen G. Kellison
Executive Director

american benefit plan administrators, inc.
2999 West 6th Street • Los Angeles, California 90020 • (213) 386-2703
■ Member, Society of Professional Benefit Administrators

STATEMENT

TO

FINANCE SUBCOMMITTEE on TAXATION and DEBT MANAGEMENT

COMMITTEE on FINANCE

UNITED STATES SENATE

HEARINGS on FRINGE BENEFITS

July 26, 27, 30, 1964

Submitted By

IRVING BALDINGER

Senior Vice President

American Benefit Plan Administrators, Inc.

American Benefit Plan Administrators, Inc., the company which I serve as Senior Vice President, specializes in administrative services to several hundred employee benefit Plans throughout the United States. Most of these Plans are the product of collective bargaining and are directed by Boards of Trustees composed of equal representation of management and labor.

In round numbers, these plans cover more than 400,000 employees and their dependents -- for a total population of one million men, women and children. Health care benefits paid by these Plans amount to more than $300 million per year.

We are intimately involved in the financial life of these Plans and the very vital services they render, since our functions include the collection of employer contributions, determination of participant eligibility for benefits, and evaluation and payment of benefit claims for the covered population.

We are, therefore, deeply concerned by various proposals currently circulating, that programs of employer-financed medical, hospital and other health care benefits should be subject to Federal taxation, either by limiting tax-exempt level of employer contributions, or limiting tax-exempt level of benefits to the recipients.

Among the reasons presented by proponents of the benefit taxing recommendations are the following:

1. The availability of health care benefits financed by tax-emempt employer contributions results in excessive use of health care services by the members of these Plans, thereby creating inflationary pressures on health care costs;

2. Contributions by employers to health care trust funds may be a tax-evasion device by employers, since the financial reserves of certain health benefit programs appear to be, at times, far in excess of current costs.

In refutation of such reasoning, I respectfully submit the following:

1. Medical care costs have certainly been rising over the years at a pace far in excess of the increasing costs of all other components of the Consumer Price Index. While we believe that there is partial justification for increased costs -- improvements in medical and general health care technology and technics certainly do entail added costs -- a major factor in the inflation we have experienced has been the unrestrained rise in medical fees.

   Curing inflation can most sensibly be achieved by placing curbs and restraints on medical and other health care service fees.

Rampant inflation, as a disorder in the health care scene, cannot sensibly be cured by punishing its victims. It is only in primitive societies that victims of disease were stoned or otherwise subjected to punishing treatment in the belief that such treatment would drive out the evil spirits. That course of therapy should not prevail in civilized society.

2. Particularly in the case of collectively-bargained health funds financed by employer contributions under the terms of labor-management agreements, the accumulation of reserve funds cannot possibly be a tax dodge by employers. These reserves cannot serve as slush funds set aside by employers to keep their tax levels low, to be recaptured by these employers at some convenient time in the future. The terms of Collective Bargaining Agreements and Trust documents establishing these Funds clearly preclude any such reversions.

The reserves accumulated by these labor-management health benefit Trust Funds serve a very vital purpose. They ensure the continuity of benefits to their covered participants in times of business recession.

As an example, let me cite the very recent experience of one of the many health benefit programs administered by my company in Southern

California. The Fund represents craftsmen in the construction industry and is financed by employer contributions to a jointly-managed Trust Fund. The employer contribution rate, for each hour worked is set forth in the Collective Bargaining Agreement.

In 1981, the Health Benefit Fund reserves of this group amounted to $31 million. The Plan's annual level of benefit payments averaged $35 - $40 million. This Fund then had reserves equal to nine (9) months of benefit payments.

During 1982 and 1983, construction activity in Southern California, as in other areas of the country, experienced a sharp decline. The drastically reduced number of hours of employment was reflected in comparable reductions in contribution income to the Trust Fund. Since the eligibility rules of this Plan provide for continuation of benefits for participants for extended periods beyond the period for which contributions are made, the Fund was able to fulfill such commitments only by the use of its reserves. By mid-year of 1983, those reserves had been reduced from $31 million to $6 million, less than two (2) months of benefit costs.

I am pleased to say that construction activity during the latter part of 1983 and the early part of the current year has had a healthy rebound and the reserves of this fund are now in the process of being rebuilt.

In the example cited, the reserves played a vital role in permitting the benefit program to continue. Had they not been there, severe hardships and health hazards would have afflicted Plan participants and their dependents. Many would have been compelled to turn to Medicaid or other public health resources to secure the care they needed.

The reserves clearly served the needs of the participants in the first instance, but they also protected the public interest by preventing a drain on public health resources.

As for the notion that taxing employees for health care contributions above certain arbitrary levels, is a means of curbing excessive use of medical, dental, hospital and other health care services, we believe that it is poor public policy and poor economics to place the use of health care services in the same category as the consumption of alcohol and tobacco.

The need for medical care is very real. Its use is not a frivolous habit and it is certainly not a hazardous-to-health indulgence, to be curbed by imposition of a "sin-tax."

Taxing the patients when their health care benefits go above some arbitrary limits. such as those which have been suggested, cures nothing. Such arrangements are clearly soak-the-sick schemes, which would heartlessly compound the problems already affecting the sick and disabled. And while

doing so, they take our eye off the ball, the real source of our problem -- unrestricted increases in health care fees imposed by the medical-hospital-dental community.

Such tax proposals are detrimental to the health of the public, and hazardous to the economic health of the nation.

We respectfully urge, in any legislation affecting so-called fringe benefits, proposals for direct or indirect taxation of employee health benefit plans be rejected, and that the policy of legislative encouragement of voluntary health benefit programs be affirmed.

AMERICAN BUSINESS INSURANCE SERVICES, INC.

☐ Branch Office:
159 MacBeth Drive
Lower Burrell, PA 15068
(412) 335-3285

☒ Home Office:
414 W. Main St., Lansdale, PA 19446
(215) 362-5525 1-800-422-8200
Telex 244454

July 18, 1984

Roderich A. DeArment
Chief Counsel Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

The Senate Finance Committee will hold hearings on the taxtion of fringe benefits and I want to express my opinions on this subject.

Our companies, American Business Insurance Services, Inc. and Buckingham International Underwriters, Ltd., have 13 employees.

I believe it is in the best interest of our country to encourage employers to provide fringe benefits. We currently provide group life, short term disability and health benefits and will add dental benefits. We plan to add a pension program, a 401K plan, long term disability income benefits over the next few years and maybe a deferred compensation program. We would add none of these programs if we lose our corporate tax deduction. If our employees were to be taxed on these beneftis we may not initiate or may even disolve our group plan because the only advantage to the employee would be a discount on the premium.

Employee benefits should not be structured in such a manner as to become a exclusive benefit for highly paid employees or business owners. On the other hand, these people make the company and country run and pay higher income taxes. I do not have any problem with higher paid employees being rewarded by higher fringe benefits.

Insurance Representatives for: The Pennsylvania Tavern Association Insurance Plan • The North Penn Chamber of Commerce Group Health & Dental Plans • The Greater Valley Forge Chamber of Commerce Group Health & Dental Plans • The Montgomery Tavern & Restaurant Association Fire & Liability and Group Health & Dental Plans • The Bucks County Tavern Association Fire & Liability and Group Health & Dental Plans • The Westmoreland County Tavern Association • The Main Line Business Association Group Health & Dental Plans

I believe our current rules concering fring benefits are sufficient to ensure that all employees benefit fairly from the tax incentives.

I do not beleive the government could even come close to providing benefits at a lower cost than our current competitive system. Many employees could not afford these benefits without the advantage of bulk group purchasing power and tax incentives. They may eventually be forced to apply for some government subsidy without these benefits and this would not benefit society or the individual.

I beleive tax incentives for employer-provided fringe benefits play a major role in a employees choice of employement. The benefits provide immediate security and are often the only means of accumulating enough wealth to retire and live at a reasonable standard of living. Employees are not foolish and are very aware of the importance of fringe benefits. Our companies have grown rapidly over the last three years. Almost every potential employee we have interviewed has asked about our benefit package. We expect to hire an additional seven people over the next 18 months and we are making plans to increase our benefit package to make it easier for us to attract the caliber of employees we need to continue our successful growth pattern.

Sincerely,

Charles H. Thompson

Charles H. Thompson
President

CHT/rkr

AMERICAN
COMPENSATION
ASSOCIATION

F. W. Miller, CCP
Executive Director

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

I am writing on behalf of the American Compensation Association (A.C.A.) to present our views on taxation of employee benefits to the Subcommittee on Taxation and Debt Management of the Committee on Finance. A.C.A. is a non-profit association of approximately 8,000 professionals who design, implement and manage employee compensation and benefits programs in their respective organizations. The vast majority of the Fortune 500 firms along with some 3,000 other organizations are represented.

To begin with, we believe the employee benefits system developed by private enterprise in the United States has been effective and efficient in meeting the financial security needs of employees and retirees. If private enterprise is not encouraged to meet these needs, government will be called upon to do so and the ultimate cost will be far greater.

It also seems clear to us that the growth in health insurance and pension coverage would not have occurred without the tax incentives which Congress has provided. According to recent studies by the Employee Benefit Research Institute, ninety percent of full-time, full-year, civilian non-agricultural workers had health insurance coverage in 1982. Their studies also show that more than 825,000 employer pension plans provided coverage to more than fifty million workers during that same year. The vast majority of these employees receiving this coverage earned less than $25,000 per year in 1983. Removal of tax incentives would be likely to reduce coverage substantially among low income workers and their families and thus increase the cost of public programs.

continued . . .

P.O. BOX 1176 • SCOTTSDALE, ARIZONA 85252 • (602) 951-9191

The private sector system of health and pension coverage will become even more vital as younger social security participants see the return which they receive when their social security contributions decline. The resulting weakening of support for social security will be much more serious unless the system is buttressed by employer-based programs.

In short, A.C.A.'s membership believes the present system of tax incentives has accomplished its objective of encouraging private sector importers to provide income security for workers and retirees. This has resulted in a higher level of productivity--as workers and their families have less need to worry about medical bills and retirement income--and has reduced the burden on government social programs. Thus, while we recognize that there must be limits to tax incentives accorded to employee benefits, we urge that the effects of any changes in tax treatment on the benefit delivery system be given very careful analysis.

Sincerely,

John A. Turney
President, Board of Directors

The American Dental Hygienists' Association's Statement

on

Fringe Benefit Taxation

Presented to

The Senate Finance Subcommittee on
Taxation and Debt Management

The United States Senate

July 26, 1984

Introduction

Senator Packwood and members of the Subcommittee on Taxation and Debt Management, I am pleased to be able to appear and testify today on the issue of fringe benefit taxation. I am Cheryl Westphal, RDH and current President of the American Dental Hygienists' Association. My permanent residence is Totowa, New Jersey.

Comments on Fringe Benefits Taxation

The American Dental Hygienists' Association is pleased to have this opportunity to submit a record statement to the Senate Finance Subcommittee on Taxation and Debt Management on the issue of fringe benefits.

The Association represents approximately 30,000 dental hygienists who are specialists in the delivery of preventive dental care. The majority of the members of the Association practice dental hygiene in offices of private practice dentists but an increasing number practice in institutional settings which include nursing homes, long-term care facilities for the aging, special care facilities for the disabled and handicapped, correctional institutions, hospital dental clinics, dental hygiene and dental schools, community health centers, etc. As preventive oral health specialists, the role of dental hygienists is

expanding substantially in reducing the incidence of dental caries and preventing the onset of periodontal disease.

The Association submitted a record statement to the Senate Committee on Finance in May 1983, addressing the proposed "tax cap" on employer-paid health insurance. The Association was concerned at that time that estimated income to be derived from a tax on health insurance would be used to finance a health insurance program for the unemployed which the Committee was also considering. The Association expressed deep concern that the linkage between the "tax cap" proposal and health insurance program for the unemployed be carefully studied before any action was taken by the Committee. We are pleased that the Committee did not act on either proposal and that now a record is being developed on the issue of fringe benefits generally, with a view towards developing tax policy that will be fair for employers and employees.

The Association understands that the Subcommittee wishes "to develop a full, fair hearing record on current fringe benefit topics" but, as providers of preventive dental care, our statement for the July 1984 hearing will focus on dental insurance and the importance of maintaining the oral health of more than one third of the nation's population who have employer-paid dental insurance for employees and their families.

The Health Care Financing Administration has just reported that spending for dental care in 1984 should reach $23.7 billion. Only $1 billion of this amount represents federal, state and local governments funds. Patients out-of-pocket expenses totaled $15.8 billion and private dental insurance accounted for $6.9 billion. Expenses for dental care are expected to increase to approximately $31 billion in 1987 and $39 billion in 1990. The proportion of this total generated through employer-paid private dental insurance can be expected to increase, with such increases continuing through this decade. It appears possible that employer-paid dental insurance could account for up to $10 billion of the estimated $39 billion dental expenditures in 1990.

Among the vast array of fringe benefits that will be considered during the July 1984 hearings, the Association will confine its comments to private dental insurance plans and urge that this fringe benefit remain completely tax free for employers and employees. The Association's rationale for urging that the status quo be maintained on dental health insurance plans was presented to the full Senate Committee on Finance last year and it is unchanged in 1984.

As an organization which represents preventive oral health specialists, it is logical that the Association encourage the Committee to develop

tax laws which encourage employers to provide fringe benefits, especially oral health benefits, for their employees. For the past 40 years health care benefits have been the central part of what is now known as "fringe benefits" which are negotiated between labor unions and industry and among these, beginning in 1954, was included dental pre-payment insurance (the International Longshoremen's and Warehousemen's Union-Pacific Maritime Association and the west coast shipping industry).

The pre-payment of dental services, both preventive and restorative, has been a fact of life for three decades and has led to a life style that regards dental health as ranking in importance with general health and well-being. The 98th Congress recently passed the comprehensive debt reduction bill, leaving the proposal to tax health care benefits for the next Congress to consider and current law, which does not require that health care benefits be taxed, is still in force.

Do Employees Benefit Fairly From the Tax Incentives?

Dental benefit plans, according to the American Dental Association, help to control dental costs. Dental insurance rewards patients who take care of their teeth in order to avoid oral disease which would require expensive restorative care.

Major dental benefit plans, in most instances cover 100 percent of the cost of diagnostic and preventive treatment, which includes routine oral examinations, prophylaxis, fluoride treatment, pit and fissure sealant applications, x-rays, tooth charting and periodontic charting. All of these procedures, performed generally by dental hygienists in most dental offices, are preventive oral health measures intended to help patients avoid dental disease, such as dental caries and periodontia.

Most dental benefit plans are negotiated under the collective bargaining system between labor and management. While the plans may vary in dental coverage from industry to industry, they provide benefits fairly among the employees. Co-payment requirements in most dental benefit plans help to control the cost of dental services and encourage employees to care for their teeth. Failure to do so, with the co-payment features of these plans, requires more out-of-pocket expenses by employees.

Are Existing Benefits Effective in Encouraging Employer to Provide Them to Employees at a Lower Cost Than Government?

Earlier in this statement, we cited a current report of the Health Care Financing Administration on the nation's spending for dental care in 1984. It is significant that spending for dental care by

federal, state and local governments was only $1 billion of a total annual expenditure of $23.7 billion. On the other hand, patients themselves spent $15.8 billion and dental benefit plans accounted for nearly $7 billion of the 1984 dental bill.

It appears that existing benefits for dental care do encourage employers to provide dental care at acceptable low cost levels, as opposed to providing benefits by governmental agencies. The provision of dental care under Medicare and Medicaid has been historically and traditionally minimal and inadequate.

Conclusion

The American Dental Hygienists' Association is a health provider organization and is unquestionably dedicated to providing preventive oral health services to the people of this nation. If the Association's goals and objectives to eliminate dental disease appear to represent a special interest group to the Subcommittee, we can offer no disclaimers or apologies. Our special interest is the promotion of oral health to all who seek it and need it.

The Association believes that taxing health care benefits, namely dental benefit plans, is an unhealthy idea which will defeat the great progress made by the dental hygiene and dental professions [illegible] past three decade[illegible] The incidence of dental caries has

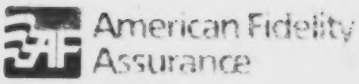
declined and periodontal disease has become a focal point of treatment by the dental hygiene and dental professions. If oral health is a national goal and objective -- and the Public Health Service Surgeon General thinks it is -- we believe that dental benefit plans should remain tax free and that current statuatory law should not be changed.

Despite our bias in addressing the issues of fringe benefits, the Association recognizes that the Senate Finance Committee, and the Congress generally, are confronted with a dilemma. The plethora of fringe benefits is impacting on the nation's revenue base. Congress and the Executive Branch as well, are compelled to act. If revenues must be increased to offset deficits, it is apparent that the tax-free health insurance fringe benefit will be carefully scrutinized.

The Association recognizes the problem of fringe benefits which the Subcommittee is addressing in this hearing and we are sensitive to the need in Congress to develop solutions to increase revenues in order to reduce massive federal deficits. It is our hope, however, that fringe benefits for health care, especially oral health care, will not need to be taxed.

We know that the Committee and Congress will need to make some difficult decisions about whether fringe benefits should be taxed.

If the concept of taxation of employee benefits is accepted, the next step is to decide which ones to tax and which to allow to remain tax free. It is our hope that Congress will opt for healthy Americans and Americans with healthy teeth and gums and save the tax free status of dental benefit plans.



August 10, 1984

Roderick A. DeArment, Esquire
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20501

Finance Subcommittee on
Taxation and Debt Management
Hearings on Fringe Benefits
July 26, 27 and 30

Dear Mr. DeArment:

Regarding the referenced hearings, we respectfully submit the following responses to the questions posed by Senator Bob Packwood:

Question 1: Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

Answer: We believe that the tax laws can influence the direction of society in providing its citizens with the incentive to provide for all or part of certain vital wel-

fare benefits and retirement benefits in conjunction with day-to-day employment. We do not maintain that current incentives should be expanded to a large degree. We do feel these tax advantages should be maintained and, in some cases such as group life, these should be adjusted. The tax incentives should be available to employees who voluntarily purchase welfare and retirement benefits and/or to employers which purchase such benefits for employees. The types of benefits which encourage employee self-sufficiency which merit continued favorable tax treatment are:

a. Hospital, surgery, and major medical reimbursement plans;

b. Disability income;

c. Group life insurance up to $100,000 face amount (the current $50,000 limit under Section 7908 of the Internal Revenue Code precedes recent price inflation which has depreciated the value of benefits and made the old limit obsolete). In fact, a face amount equal to two or three times salary might be more equitable and would automatically adjust to price increases;

d. Retirement plans in general. Considering the strains on the Social Security System and its intended use as a minimum benefit plan, both employers and employees should be given incentives to provide savings for retirement;

e. Deferred compensation plans.

Question 2: What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

Answer: Tax policy should assist with the control of rising medical provider costs and problems of needless voluntary utilization, for example, the tax advantage should be contingent upon and requiring that the patient pay first dollar costs out of pocket each year in an amount equal to at least $300 (other figures in the range of $200 to $1,000 may be suggested). It is well to continue restrictions in tax-favored retirement plans which penalize taxpayers who use the accounts for purposes other than benefits at retirement. Retirement plans which realize tax advantages should, as a matter of social policy, continue to be

required to be non-discriminatory as to eligibility of all classes of employees to participate. Equality of benefits should be judged on the basis of ratios of pre-retirement income, rather than equal dollar amounts of contribution or benefits. Plans should be allowed to continue taking Social Security into account in formulas determining equal treatment.

Question 3: Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

Answer: Every effort should be made to make the definition of so-called cafeteria plans offered under Section 125 of the Internal Revenue Code clear and simple so employers will not hesitate to make these plans available and will be able to afford the administration of these plans. These plans recognize the varied needs of different employees and help avoid costly duplication of benefits. These plans are correctly restricted to prevent conversion of normally taxable items to a non-taxable status. The cafeteria plans should provide those benefits beneficial to the well being of employees, such as medical benefits, disability bene-

fits, group life insurance, dependent child care and educational assistance. All of these help maintain the quality of life, assist those who are self-supporting, and encourage human advancement. When provided through an employer plan, whether by salary reduction or as an employer-paid benefit, the cost of these benefits should be tax-sheltered. Cafeteria plan monies not used by the employee for non-taxable benefits should be payable to the employee only in cash on a fully taxable basis.

Question 4: Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross section of employees at a lower total cost than if the Government provided the benefits directly, if employers provided the benefits on a taxable basis, or employees purchased these benefits on their own?

Answer: We believe that the revenue lost to the government through the tax-sheltering of basic welfare and retirement programs provided by employers is less than the administrative costs of providing such benefits under comprehensive

government programs. We believe that current tax incentives, with some adjustments, would tend to encourage initiative and self-sufficiency and could be delivered more efficiently under simpler statutes and simplified reporting systems.

Question 5: How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

Answer: To the degree that employer-paid benefits are tax-deductible, employers will tend to be able to make available more welfare and retirement programs of a more comprehensive nature than could be purchased by an employee with after-tax dollars.

Question 6: Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

Answer: Surveys indicate that employees rank the desirability of a given job first on feelings of accomplishment. However, compensation is also near the top in reasons for selecting a particular job. Today's employee tends to

judge direct and indirect compensation as closely related issues. This means that, all other factors being equal, employees tend to select jobs with the best benefits at the least after-tax cost to them.

Yours very truly,

Stephen P. Garrett
Vice President

SPG:sb

AICPA

American Institute of Certified Public Accountants
1620 Eye Street, N.W., Washington, D.C. 20006 (202) 872-8190

Federal Tax Division

of the

American Institute of Certified Public Accountants

Comments on the Senate Finance Subcommittee on Taxation And Debt Managements' Hearing on Fringe Benefits July 26, 27 and 30, 1984

Submitted to the
Senate Finance Committee

August 8, 1984

The AICPA Federal Tax Division's official position in the fringe benefits area dates back to April, 1979 when it published Fringe Benefits: A Proposal for the Future. This publication was the culmination of a study whose purpose was to examine the development of the issues, to recognize existing economic practices, and to formulate comprehensive rules to be used in the determination of the taxability of employee fringe benefits and the related issues of valuation and administration.

It was determined in the study that the rules to be formulated by legislation should be durable, practical, uniform, operational, and generally acceptable. They should also be equitable and nondiscriminatory. Benefits that are job related or that are part of working conditions should be distinguished from those that more clearly constitute compensation. In addition, administrative feasibility, which includes identifiability, measurability, and de minimis demarcation, should be recognized. The broader issues of economic stability and planning, control of inflation, equitable distribution of resources, and the consequences of economic realignment between different industries and groups were also considered.

A fringe benefit is defined as a payment, in cash or in kind, that benefits an employee in addition to or as part of salary or wages. The purpose of a fringe benefit program is to satisfy both employer and employee business objectives,

including the creation of business and economic advantages that motivate employees to greater productivity and enhance job satsifaction. Economic feasibility, cost-benefit factors, and tax considerations are part of any compensation planning that involves fringe benefits.

Fringe benefits are, in general, included in the definition of gross income under present law. The "Tax Reform Act of 1984", however, provides a statutory framework for the taxation of employee fringe benefits. The division generally supports the overall concept of the law with an explanation of its opinion and exceptions it takes to the law following.

In deriving its position on the taxability of fringe benefits not covered specifically by statute, the division had reexamined the 1975 discussion draft of IRS proposed regulations and commentary on issues presented therein. The discussion draft reflected a formal attempt to establish guidelines in the fringe benefit area as regulations rather than as legislation. It was felt, however, that legislation was required because the discussion draft proposed to exempt items that would be taxed under section 61 of the Internal Revenue Code. The division, in proposing legislation, also made substantive changes in the method of valuation suggested in the 1975 discussion draft and in the formulation of rules to provide more objective standards under which to determine which benefits are excludible from gross income. The following rules were proposed.

The General Rule.

General Rule--Where an employer generally makes available to its employees facilities, goods, or services that exist incidentally to its trade or business, the resulting benefits to employees and their immediate families (to include only spouse and dependent children) shall not be treated as compensation includible in gross income under the following circumstances:

1. The facilites, goods, or services are produced, held for sale, or furnished by the employer to customers in the normal conduct of trade or business and not primarily for the personal use or consumption by the employees of the employer; and

2. The facilities, goods, or services are made available to the employees under terms and conditions such that the employer incurs no substantial additional cost in making them so available; and

3. The facilities, goods, or services are made available on a nondiscriminatory basis to employees generally or to reasonable classifications of employees determined, for example, on the basis of the nature of their work, seniority, or similar factors.

If all three tests are met, a benefit is considered nontaxable.

The Special Rule. In a number of instances, a benefit will not satisfy the general rule. Further examination is necessitated. Therefore, a special rule is provided to test the benefit for possible exclusion. The special rule covers the relationship of the benefit to the employee's job, the business requirements of the employer, and the safety of the employee.

The special rule is proposed as follows:

Special rule--Other benefits. Where facilities, goods, or services are made available under circumstances that do not meet all three of the requirements of the general rule, whether or not the benefit conferred constitutes gross income, will be determined as follows: If the facilities, goods, or services satisfy any one of the three requirements of the general rule and any one or more of the following tests, the business-use portion will be excluded from gross income. In determining whether requirement 2 or 3 of the general rule applies, the facilities, goods, or services involved need not be produced, held for sale, or furnished by the employer in the normal course of its trade or business. If the de minimis exception is satisfied, any personal-use portion may also be excluded.

1. The benefit is considered as part of working conditions and has a proximate relation to work performed by the employee.

For example, in meeting this test and one of the tests under the general rule, working conditions may include items used by an employee at the job site during normal working hours or facilities, goods, or services which expedite the conduct of company business or improve efficiency in job performance. Office furnishings satisfy this provision. Incidental food and beverages furnished at a job site would also qualify. Parking space provided by the employer may come under this provision, particularly in the case of salesmen who must spend time both in and out of the office.

2. The benefit furnished or the expense incurred accommodates an important business requirement of the employer.

Specific benefits covered by this provision and one or more of the tests under the general rule may include the use of

corporate assets and supper money, taxi services, firm parties, and tickets provided to a function at which the employer must be represented.

3. The benefit is provided primarily to insure the employee's safety by protecting against significant risk arising from the employment relationship.

Night taxi service, body guards, and security systems may all fulfill this provision.

De Minimis Rules. Following the precedent of Revenue Ruling 59-58, 1959-1 C.B.17, which permits gifts of relatively small value to be given to employees to promote good will, the division recognizes the administrative need for de minimis rules. The proposed rules are as follows:

De minimis exception.

1. Where a facility or asset's primary purpose and use is business related, incidental personal use shall not result in income to the employee or user. "Incidental personal use" should be defined in terms of a percentage of total use during the taxable year. If the personal use is not incidental under this rule, the taxable amount of the personal use for the taxable year (such amount being considered a single transaction) may be exempted under paragraph 2.

2. The provision of facilities, goods, or services shall not be deemed to give rise to compensation includible in gross income when the amount of such item is so small or unidentifiable as to make accounting for it unreasonable or administratively impractical. This rule should be applied on a transactional basis, rather than on an aggregated basis, unless each transaction is found to be part of an overall plan to provide a package of specific and previously identified items. For the purpose of this rule "the amount of such item" shall be the amount determined under the rules for the valuation of taxable fringe benefits.

Valuation of Taxable Fringe Benefits. To ensure fairness and enforceability, the division recommends a procedure whereby the taxable income to the recipient of the benefit would be the lower of--

1. The incremental or allocated cost of the benefit to the employer, or

2. The equivalent cost of the benefit to an unrelated third party.

We do not agree with the Conference Report on the "Tax Reform Act of 1984" (effective 1/1/85), which uses fair market value for valuation of taxable fringe benefits.

The division's proposed rule is as follows:

Amount of income. If it is determined that an item is compensation incudible in an employee's gross income, then the amount included in gross income is the lower of cost to the employer or fair market value of the item, which is the amount that the employee would have had to pay, on an arm's-length basis, to obtain use or possession of equivalent facilities, goods, or services. Such inclusion, however, may be eliminated as a result of the application of the de minimis rules.

1. Cost is incremental cost, except allocated cost should be used when property is furnished to employees primarily for personal use.

2. The regulations prescribed under this rule shall define employer cost with respect to the taxation of specific benefits to the employee.

Incremental cost is marginal cost, which is the additional cost to the employer of furnishing the benefit to the employee. Allocated cost, rather than incremental cost, should be used when property is furnished to employees or their families primarily for personal use. A proportionate

part of fixed cost, such as depreciation and insurance, is included in allocated cost. Such primary personal use is taxed to the employee, and the valuation of the benefit is the lower of allocated cost or the amount that employee would have to pay on an arm's-length basis. Cost is not to include lost profit or opportunity cost.

The division disagrees with the "qualified employee discount" provision of the new law. The employee discount should not be limited to any specific percentage of normal retail price. This provision may cause more problems than it solves, by imposing additional as well as onerous record-keeping requirements on employers relating to the computation of gross profit percentages. Further, in many industries, it is quite common for employers to offer their products to the general public at sale prices well below a 20 percent markdown. We believe that the proper test for an employee discount should provide that the item offered is one generally provided in the employer's normal business at no substantially additional cost.

OTHER PROPOSALS

Withholding of Taxes. Because it is desirable to minimize employer's administrative problems, the division recommends that no income or payroll taxes be required to be withheld from the employee, or paid by the employer, on the amount of income determined to arise from taxable fringe benefits. In

implementing this recommendation, Congress should consider whether to continue or to change the treatment of certain benefits currently subject to payroll taxes.

Reporting of Fringe Benefits. The compensatory value of fringe benefits should be reported as "other compensation" on Form W-2.

Other Recommendations. Prospective application of legislative rules is recommended. All employee groups in our society should be covered by these provisions. They should apply to military, congressional, and other government employees as well as to those in the private, commercial, and not-for-profit sectors.

RATIONALE FOR RECOMMENDATIONS

The division reached its conclusions after considering several alternative approaches to resolution of the issues in fringe benefit taxation. The decision to recommend the codification of most of the status quo was made in an attempt to provide simplification and greater certainty in the treatment of a large number of diverse situations. It is essential to recognize that many taxpayers have relied on long established practices in making choices. There should be no sudden disruption in corporate and individual planning and the conduct of business.

These proposals, however, leave room for gradual change. The proper procedure for such modification will be either through the enactment of changes in the broadly stated statutory rules or, with respect to their applicability to specific benefits, throught the regulatory process. As clarification is needed or if decision making must be illustrated for specific situations, regulations rather than rulings should be issued in order to benefit from the public comments received on exposure drafts.

The division has attempted to make its recommendations broad in scope but not so definitive as to prevent evolution of the law in this area as it becomes necessary. It, therefore, has not attempted to cover all possible employee fringe benefits nor all the situations in which they might be furnished.

The general rule has been designed to exclude a large number of mass benefits which are presently excluded as a result of historical development, or custom. These benefits are similar in nature to those currently defined in Subchapter B, Part III, Sections 101 through 127.

When benefits cannot be excluded by meeting each of the tests under the general rule, the special rule reduces uncertainty by providing an alternative which requires justification of the benefit because of its relationship to the employer's business or the employee's safety in his

employment. The tests in the special rule must be used in conjunction with those in the general rule in order to exclude the benefit. In any case, current law is not to be superseded where the benefit is not provided solely to meet an important need or requirement of the employer. In other words, if the personal use of a facility, good, or service is not judged de minimis, the personal benefit is taxed to the employee. An example is the use of a company automobile for personal reasons or for commuting.

When taxable, the value of the benefit to be included in income must be determined as equitably and objectively as possible. Where the employee is furnished a benefit primarily because of a business requirement, such as the provision of a demonstrator automobile for the salesman's use, the division believes that it is only equitable that the measure of compensation be the lower of the employer's incremental cost or third-party equivalent cost in valuing the employee's personal use of the automobile. However, the division believes that where the benefit is furnished for primarily personal reasons and contains a significant element of compensation, such as the use of a company automobile by family members, the application of the lower of allocated cost or third-party equivalent cost in determining the amount taxable to the employee will result in greater horizontal equity. On the other hand, if in any situation the percentage of personal use or the value of the benefit

is considered to be de minimis under the suggested rules, the amount of the fringe benefit should be excluded from income.

The division has considered only the issues involved in the provision of nonstatutory fringe benefits to employees. There has been no attempt to consider these rules as they might be applied to independent contractors, partners, or other self-employed persons. These are significant groups of taxpayers who have a dual status similar to that of both an employer and an employee.

STATEMENT

of the

AMERICAN MEDICAL ASSOCIATION

to the

Subcommittee on Taxation and Debt Management
Committee on Finance
United States Senate

RE: Taxation of Fringe Benefits

August 6, 1984

The American Medical Association takes this opportunity to submit its comments on the subject of taxation of fringe benefits. The principal concern of the American Medical Association in this area at this time is the tax treatment of employer-provided health benefits to employees.

Today 85% of Americans with private health coverage are covered through group plans obtained at their place of employment. Employers and labor unions play significant roles in our health care system by helping to assure that employees receive adequate protection against the costs of health care. Federal tax law has encouraged this positive development by excluding from an employee's taxable income the amounts contributed by an employer for employee health costs. We urge continuation of the current policy, with modifications discussed below, so that the private sector will continue to assure appropriate health coverage for the employee population.

The Health Care Cost Problem

The cost of health care is increasingly important in our public policy debates. Employers are becoming more concerned with their overall health care costs. Major business enterprises have assumed commitments to provide comprehensive health benefits coverage to their employees. Many are now reviewing the wisdom and necessity of total coverage and are placing more responsibility on workers to share in the costs. Some industry is now concerned that fringe benefit costs place American business at a disadvantage with foreign competitors having lower total labor costs.

For some years health care economists have focused on the provisions of the Internal Revenue Code which exclude from employee income the amounts paid by the employer for health insurance. Some have said that Americans tend to overinsure against predictable health care costs and pinpointed the federal tax subsidy for private health insurance plans as a prime contributor to the problem.

In 1978 the AMA adopted a recommendation of the National Commission on the Cost of Medical Care that there be a limitation on the tax-free status of employer-provided health plans.

Following his election, President Reagan appointed a Health Policy Advisory Group chaired by William Walsh, M.D, Director of Project HOPE. Dr. Walsh stated that we should "make certain that our tax laws will not penalize efficiency and cost-effectiveness. . . . Cost-conscious business and labor forces should also have incentives in the form of tax-free rebates in order to expand efforts already begun in the private sector to purchase health protection at a competitive, reasonable cost. . . . We

should reward citizens who select cost-effective plans, just as federal policy should reward cost-effective physicians, hospitals, and other providers of care. These policy changes will stimulate competition in health care delivery--a more effective stimulus for cost-containment than mere regulation. . . . The primary causes of the increase in our health bill have been the infusion of payment for health care which have taken both the consumer and the provider out of the transaction. . . . As a result of all participants in the health transaction being exempt from the consequence of their decisions, federal policy makers cannot rely on the normal cost restraints imposed at the marketplace."

The Winston Task Force appointed by then Health and Human Services Secretary Schweiker in 1981 recommended that a limit should be imposed on the current exclusion from taxable income of an employee's share of employer-paid health plan contributions or premiums. With regard to an employee who selects a lower-cost health plan option, the task force decided to recommend that a tax-free rebate for choosing a low-cost option be made optional with the employer.

Secretary Schweiker also convened an internal HHS staff task force to consider health care financing reform options. This task force also recommended changes in the tax system. It recommended that employers be prohibited from deducting as a business expense health plan contributions exceeding a certain dollar amount per month. The group also recommended that tax credits equal to some fraction of an employer's start-up costs be granted to employers who offer their employees a choice of health plans. To qualify for this tax credit, the internal task force recommended that employers offer a choice of cost-effective health plans.

In the 97th Congress various pro-competition/consumer choice bills contained tax changes to create incentives for greater consumer choice in health plans.

In 1983 a far-reaching new project was launched by the AMA: the Health Policy Agenda for the American People. This unique and important cooperative program will continue until mid-1986. It brings together more than 350 representatives from some 150 groups and represents a coordinated private and public health sector effort to develop a long-term, consistent approach to the health care issues facing the nation.

One of the principles adopted in Phase I of this project declares that "Government spending and taxing policies should encourage efficient production and consumption of health services." In supporting language, the report of the Health Policy Agenda [illegible]es that "tax treatment of employer contributions for health insurance and individual tax deductions for health expenditures influence the level of insurance coverage thereby affecting the demand for health care. This, in turn, impacts on the utilization of health care and expenditures."

The above statements, recommendations and findings all underline the fact that this nation's tax policies have a significant impact on the health care marketplace. In addition, as reformers seek solutions to the problems in our health care payment mechanisms many consider changes in the tax system to reverse "perverse incentives" that may exist there.

AMA Position

The American Medical Association supports a limitation on the current unlimited tax-free status of employer-provided health insurance.

A bill introduced in this Congress at the request of the Administration, S. 640, would provide that employer contributions to a health plan would be includible in gross income of the employee to the extent that they exceed $70 per month for an individual employee or $175 per month for family coverage. The AMA supports this bill.

Although in this time of large deficits many might view the tax cap proposal as desirable primarily from a revenue-enhancement point of view, our support is based on the expectation that such a cap would increase consumer cost-consciousness and thereby help to reduce the increases in health care costs. We believe that the levels for any cap should be high enough to provide for an adequate health insurance policy.

A cap on the tax-free health insurance benefits received by an employee could lead to a re-examination of expensive first dollar coverage and could result in the offering of less-expensive plans incorporating larger deductible or copayment amounts. Studies, notably one conducted recently by the Rand Corporation, indicate that even modest deductibles and copayments can have a significant impact on reducing inappropriate demand for health care services by increasing consumer cost-consciousness.

The AMA continues to support modifications to the tax code to modify the incentives that encourage expensive first-dollar coverage in employee health benefit plans, and we have developed principles for consumer choice health insurance programs. The principles are intended to stimulate competition by providing the employee with multiple options for health insurance coverage and enabling the employee to make a prudent selection. A copy of these principles is attached to this statement.

The tax cap proposal would assist in reducing overall health costs by restraining demand for health services, and it represents a preferable alternative to regulation of the supply of health services through "central planning" which ultimately leads to the rationing of health care.

At a time when all are concerned about the increasing expenditures for health care, we feel that the tax cap proposal is an appropriate step toward removing one of the incentives to overinsure and overutilize services.

A cap would eliminate the bias toward increased health benefits rather than increased cash salary that exists under current law. Currently the employee effectively receives a full dollar for every dollar paid by the employer for insurance premiums. If the employee takes the same dollar in salary, its benefit to him would be reduced if he had to pay tax and use the balance remaining to pay the insurance premium. While the purchase by the employer is not itself a problem, the resulting comprehensiveness of coverage can stimulate excesses in the use of the health system. Under a tax cap, employees will be faced with a different tax consequence where additional benefits provided through an increased premium contribution will come from "after tax" dollars. In the final analysis, a reasonable "cap" will cause a closer analysis by employees of the need for a premium expenditure and will result in greater individual responsibility in the use of the health system.

We believe that it is important that legislation providing for a tax cap contain indexing provisions to recognize future increases in the cost of medical care and a concomitant increase in employer health plan costs. In this way the cap will continue to discourage primarily the

very expensive first-dollar health plans but will not impose undue tax consequences on workers whose health plans become more expensive solely due to inflationary trends. We believe that the medical care component of the consumer price index is the most appropriate index.

Our second concern focuses on the scope of benefits offered by the employer. We urge employers, employees, and third party payors to adjust plans by increasing patient cost-sharing and by offering multiple plans with varying deductibles and levels of coinsurance. Plan costs should not be arbitrarily reduced simply by reducing the breadth of benefits provided by health insurance plans. We believe that employer-based health insurance has proven to be an extremely successful mechanism for providing most Americans with access to comprehensive health care services, and this feature of our health care system should not be weakened in order to maintain first-dollar coverage with its demonstrated increase in demand.

Conclusion

The American Medical Association supports the adoption of a tax cap on employer-provided health coverage. We believe such an action would represent an important first step in rationalizing economic decision-making by encouraging the offering of less expensive health plans providing for greater patient cost-sharing and individual responsibility. The existing incentive for overinsuring (through federal subsidy) should be eliminated, and the Administration's proposal as embodied in S. 640, if modified, is a reasonable and measured response addressing the problem. We urge the Committee to give favorable consideration to this proposal and to provide for appropriate indexing of the tax cap level.

1496p/1

ATTACHMENT

CONSUMER CHOICE PRINCIPLES

The nearly universal coverage of medical expenses by health insurance or Government health programs has insulated most Americans from consideration of the cost of medical services. It is said that this is partly responsible for the continuing rise in medical care costs. Government responses have usually imposed limits on the supply of medical services; it has been AMA policy that demand for services must be addressed. Thus competition and individual choice must be enhanced as alternatives to regulation.

The following principles should be considered as a whole. They spell out a policy for greater individual choice and for incentives for prudent behavior by individuals. While the principles may singly state appropriate policy, it is intended that all principles be considered in reviewing consumer choice/competition legislation.

1. Employment-Based Health Insurance. The growth of employment-based group health insurance for employees and their families should continue to be encouraged through tax incentives.

2. Adequate Benefits. Each health insurance plan offered to employees should contain adequate benefits, including catastrophic coverage. Plans which do not have adequate benefits should not qualify for tax deduction as a business expense for the employer.

3. Multiple Choice of Plans. Health insurance plan options, with varying levels of coinsurance and deductibles, should be available to employees; accordingly employers, through tax incentives, should be encouraged (but not required) to offer employees a choice of several health insurance plans. Multiple options will better meet individual and family needs and encourage greater individual responsibility in utilization of medical care services.

4. Equal Contributions. Equal employer contributions should be made for health benefit plans, regardless of the plan selected by the employee.

5. Limitation on Tax Deductibility of Excessive Health Insurance Premium. A limit should be placed on the amount of health insurance premiums paid by an employer that would be tax exempt income to the employee, as with life insurance. This amount should be high enough to provide for adequate benefits and should be adjusted for inflation.

   In order to discourage overinsurance and "first-dollar coverage" which can cause increased demand for care, amounts paid by the employer in excess of the limit would be taxable income to employees.

6. Rebate to Employees. In order to stimulate prudent selection of health insurance by employees, employees may receive non-taxable rebates when choosing an insurance policy where the premium cost is less than the amount of the employer contribution.

7. Quality of Care. Employer health insurance plans should assure employees the free choice of sources of medical care services. Services should be of high quality. Plans should provide comparable benefits for treatment of physical and mental illness.

1496p/2

AMERICAN OF MARTINSVILLE
MAKERS OF DISTINCTIVE FURNITURE FOR BEDROOM, DINING AND LIVING ROOM

JIMMY L. ROSSER
PERSONNEL DIRECTOR, A. E. P.

July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington DC 20510

Dear Mr. DeArment:

Regarding the July 26, 27 and 30 hearing, Taxation of Employee Benefits, the following is submitted for your consideration.

It is this Company's position that private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it.

There is a definite need evidenced, and this is being fairly met under our present system.

Sincerely,

J Rosser.

Jimmy L. Rosser

JLR:js

American Mirror Company
INCORPORATED
P.O. BOX 87 TELEPHONE (703) 236-5111
Galax, Virginia 24333

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg, Rm. SD-219
Washington, D. C. 20510

RE: Public Hearings of July 26, 27, and 30, 1984
Taxation of Employee Benefits

Dear Mr. DeArment:

The management staff at American Mirror Company, Inc., is of the opinion that the existing tax laws do encourage employers to provide fringe benefits to our employees. It is our feeling that all our employees do benefit fairly at the present time from these current tax incentives.

Our benefits for medical insurance, disability income protection and group life insurance are uniform for all of our employees. We do not provide these fringe benefits just to the highly paid employee nor only to male employees. All employees are treated equally and fairly with our company-sponsored plan of benefits.

The cost for medical care is now extremely expensive. If the government was to make the cost of medical benefits we provide for our employees as taxable income to the employee and remove the tax deduction from the employer, as an employer we would no longer have an incentive to provide medical insurance, disability income, life insurance, etc. to our employees. It would be much easier administratively to eliminate all fringe benefit plans and to simply increase the hourly rate of pay for our employees to purchase their own insurance for their own needs. However, the employee does not have the group purchasing power that the employer has. Many individual policies, especially medical insurance do not provide the broad coverage which our group plan provides.

Thus, it is our contention that our employees would not purchase their own individual policies or get as much coverage for their dollar as the employer provides. We feel that our employees would definitely suffer if employer-sponsored benefits do not exist. We feel that employee benefits are essential to the economic security of our employees and their dependents.

AMERICAN MIRROR COMPANY, INC.
P. O. BOX 87
GALAX, VIRGINIA 24333

August 13, 1984

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

Very truly yours,

Glennis S. Morris

(Mrs.) Glennis S. Morris
Corporate Secretary

GSM/jp

American
Psychiatric
Association

1400 K Street, N.W.
Washington, D.C. 20005
Telephone: (202) 682-6000

Board of Trustees, 1984-1985

John A. Talbott, M.D.
President

Carol C. Nadelson, M.D.
President-Elect

Elissa P. Benedek, M.D.
Vice-President

Irwin N. Perr, M.D.
Vice-President

Shervert H. Frazier, M.D.
Secretary

George H. Pollock, M.D.
Treasurer

Daniel X. Freedman, M.D.
H. Keith H. Brodie, M.D.
George Tarjan, M.D.
Past Presidents

Lawrence Hartmann, M.D.
Robert J. Campbell, III, M.D.
John J. McGrath, M.D.
Leigh M. Roberts, M.D.
Pete C. Palaiosa, M.D.
Paul F. Slawson, M.D.
Hugo Van Dooren, M.D.
Boris M. Astrachan, M.D.
Naomi Goldstein, M.D.
Lindbergh S. Sata, M.D.

Assembly, 1984-1985

Fred Gottlieb, M.D.
Speaker

James M. Trench, M.D.
Speaker-Elect

Aron Wolf, M.D.
Recorder

John C. Nemiah, M.D., *Editor*
American Journal of Psychiatry

John A. Talbott, M.D., *Editor*
Hospital & Community Psychiatry

Robert J. Campbell III, M.D., *Editor*
Psychiatric News

Melvin Sabshin, M.D.
Medical Director

John Blamphin
Director, Public Affairs

Jay B. Cutler, J.D.
Special Counsel and Director, Government Relations

Donald W. Hammersley, M.D.
Deputy Medical Director

Ronald E. McMillen
Director, Publications and Marketing

Carolyn B. Robinowitz, M.D.
Deputy Medical Director

Steven S. Sharfstein, M.D.
Deputy Medical Director

Jeanne Spurlock, M.D.
Deputy Medical Director

Jack W. White, D.B.A.
Deputy Director, Business Administration

10 August 1984

The Honorable Robert Packwood
Chairman
Subcommittee on Taxation and Debt Management
Senate Finance Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The American Psychiatric Association, a medical specialty society representing over 29,000 psychiatrists nationwide, is pleased to provide its views of proposed tax law changes relating to fringe benefits. As you may be aware from previous testimony we have submitted to the Senate Finance Committee, we are most seriously concerned about past and present efforts to alter the current tax-exempt status of employer-paid employee health insurance premiums.

We know from a recent painful experience with the Federal Employee Health Benefit Plan that when benefits are cut -- as they would be in this case to reduce premium costs -- the first cutbacks are those for the treatment of mental illness. History has instructed us well that the voiced or unvoiced concerns of the mentally ill, whose benefits under most employer plans already are restricted at best, are not heeded at such times.

Similarly such a cap could have other serious, but more indirect adverse effects on mentally ill, other chronically ill and older workers. If employers responded to the tax cap by offering employees a choice of plans -- a low option which is non-taxable and a high option which is taxable - those who perceive themselves as healthier likely would choose the lower-cost, minimal coverage plan. Less healthy workers would want the protection of a more comprehensive, higher cost (and therefore taxable) plan. Over time, the cost of providing services to the high users would drive up the premium of that group, and those remaining healthier workers would drop out. This adverse selection would put the cost of the more comprehensive protection out of reach for those who need it. Thus, those at greatest risk for high health care costs, for whom the concept of health insurance is intended to serve and who

are the least able to bear the increased tax burden imposed by the tax cap, among them the mentally ill, mentally retarded or handicapped, will be least able to afford the insurance coverage itself.

During your Subcommittee's hearing on the fringe benefit issue, Chairman Dole noted that "the exclusion from an employee's gross income for employer-provided health care coverage was intended to encourage employers to provide comprehensive medical coverage for all workers. Certainly, this desirable social goal has been achieved through the use of tax incentives." He then supported the Administration's proposal to alter such benefit's tax status through the imposition of a cap on such insurance benefits.

We are deeply concerned that changing the current tax status of such health benefits most likely would lead to damaging alterations in that "comprehensive medical coverage" which would work to the detriment of this nation's workers and their families. Further, we understand it will not raise the revenues which the Administration suggests could then be utilized to shore up either the Federal deficit or the Medicare program.

The National Center for Health Services Research, the Employee Benefits Research Institute and Price Waterhouse have all determined that the revenues projected to be raised by the imposition of such a cap are based on poorly founded assumptions. For example, it is assumed that employees will maintain their insurance coverage above a capped level. The facts are to the contrary; employees will opt for lower-cost coverage, avoiding the tax and raising no revenues. As stated at the outset based upon FEHBP experience, benefit packages likely will be reduced to hold down premium costs.

We urge the Committee to retain the current tax status of employer-paid employee health insurance premiums not only because of its hollow promise of increased revenues, but because of the hardship it will work upon a significant number of mentally ill, mentally retarded, handicapped and chronically ill in this country -- populations already too often burdened by high insurance premiums for inadequate coverage.

Sincerely,

Jay B. Cutler
Special Counsel and Director
Division of Government Relations

JBC:TF:bj

The American Society of Mechanical Engineers

Suite 216
1825 K Street, N.W.
Washington, DC 20006-1202
202-785-3756

1984 AUG 15 AM 9:27

August 10, 1984

The Honorable Bob Packwood
Chairman
Subcommittee on Taxation and Debt Management
Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The American Society of Mechanical Engineers appreciates this opportunity to present its views on taxation of employee educational assistance provided by their employers. We request that the attached statement on this issue be included in the record of the hearings conducted by the Subcommittee on Taxation and Debt Management, July 26, 27, and 30, 1984, on taxation of fringe benefits.

Adult and continuing education is particularly important for engineers, who must stay abreast of rapidly changing technology. We hope our statement is useful to the Subcommittee as it reviews this important issue. Please let us know if we can provide any further information or can be of assistance.

Sincerely,

George Kotnick
President

GK/PWH:ln

Statement of

The American Society of Mechanical Engineers

Submitted for the Hearing Record

Subcommittee on Taxation and Debt Management

of the

Committee on Finance

United States Senate

Hearings on Employee Fringe Benefits

August 10, 1984

The American Society of Mechanical Engineers (ASME) appreciates the opportunity to submit its views on the reinstatement of Section 127 of the Internal Revenue Code to the Taxation and Debt Management Subcommittee of the Senate Finance Committee. ASME is a technical and educational society founded over 100 years ago. Membership in ASME exceeds 100,000 engineers.

One of ASME's goals is to ensure the technical competence of engineers throughout their working life. With rapid changes in technology, continuing education is especially critical for engineers to keep up to date in their field or to switch areas of engineering specialization. We wish to stress that continuing education has two functions: 1) To enable engineers to keep pace with rapidly changing technology in their field; and 2) To provide for retraining to avoid unemployment in a diminishing field.

Until its expiration on December 31, 1983, Section 127 of the Internal Revenue Code exempted qualified employer educational assistance from employee Federal income taxes. Since the law now requires employees to pay taxes on tuition payments made by their employers unless the courses are strictly "job-related," we believe there will be a substantial drop in adult and continuing education. Over 95 percent of the participants in ASME's continuing education courses since the outset of its professional development program have been supported by their employers through tuition reimbursement.

In the absence of Section 127, employers and employees must return to the old "job related" test. That test has serious ambiguities which will

create uncertainty and have a chilling effect on employer support for continuing education.

Reinstating Section 127 would be analogous to the GI Bill of Rights which provides for an investment in the future. Continuing education should be viewed as an investment, not a fringe benefit. It should be considered a business expense, required for a company to remain competitive. With the appropriate mix of educational programs, we can improve our quality of life while improving the nation's industrial competitiveness and balance of trade; we can improve productivity while improving the quality of our products.

To illustrate the importance of Section 127, we offer two examples of how it affects workers of different ages. In 1979, a 55 year-old aerospace engineer found himself not working on a space program because his employer re-assigned him to a synthetic fuels project. Even though his undergraduate education, made possible by the GI Bill, allowed him to help put a man on the moon, he required retraining to apply his engineering knowledge to a program trying to ensure the nation's energy independence. His retraining through continuing education should not be considered a fringe benefit. It is a means for that person to grow professionally and maintain the competence necessary to stay employed.

In 1984, a 29-year old welder is facing unemployment because the steel industry for which he has been working cannot compete with the Japanese steel industry. The welder could be retrained for employment as a welding inspector in another industry or possibly enter a program in computer aided manufacturing to help revive the competitiveness of the

U.S. steel industry. This retraining is not a fringe benefit. If pursuant to a qualified educational plan under Section 127, the cost of retraining would not be taxable income to the welder. Without Section 127, it is unclear whether it is "job related" under Section 165.

These examples demonstrate that failure to provide continuing education and retraining frequently results in unemployment, and hence a lower tax base. More importantly, middle income people who would benefit most from education to enhance their job skills would be hurt the most and unemployed first.

Congress has long debated the need and methods for improving skills of the workforce to maintain employment and compete in international markets. Recently, the Congress approved a $400 million program to boost math and science education. We support this effort, but note that reinstatement of Section 127 would cost the U.S. Treasury only a fraction of $400 million; the Department of Treasury itself estimated the cost of Section 127 would be $25 million in 1984. On the other hand, the cost to the Treasury for every one percent increase in unemployment is $30 billion. Clearly, Section 127 is a cost-effective investment in the future of America.

Congress has also expressed concern about commercial utilization of technology. Unless engineers and others in the work force have the ability to move easily from one technical project to another, much technology with commercial potential will continue to collect dust on shelves.

Just a few weeks ago, the Senate approved legislation to enhance new manufacturing technologies, including automated manufacturing and robotics. For new, efficient manufacturing technologies to be successfully implemented, thousands of engineers and technicians will need to learn new skills through continuing education. Exempting tuition reimbursement from taxable income would greatly facilitate this process.

In conclusion, we urge the Subcommittee to move expeditiously to approve legislation to reinstate Section 127 and make clear that employer expenses for employee education are legitimate business expenses which are not taxable income to the employee. Continuing education is a cost-effective investment, not a fringe benefit.

0243A

aspa
Managing Human Resources

Chairman
James H. Skaggs, APM

Corporate Personnel Director
Del E. Webb Corporation
3800 North Central Ave.
Phoenix, AZ 85013
(202) 264-8370, Ext. 370

August 10, 1984

The Honorable Robert Packwood
United States Senate
259 Russell Building
Washington, D.C. 20510

Dear Senator Packwood:

The American Society for Personnel Administration would like to present its position on the status of current employee benefit legislation. We would also take this opportunity to express our views on the subject of potential legislation which may change the way employee benefits traditionally have been taxed.

We feel that a description of the key issues in employee benefit legislation being considered by the Congress and the Society's reaction to each of these points would be beneficial to the Committee.

Tax Reform Act of 1984

With respect to the Tax Reform Act of 1984 there are several items that cause considerable concern to the business community. First, for those companies that use 501(c)(9) trusts to fund disability and medical plans, very restrictive limits will be placed on the funding of these benefits with the imposition of higher administrative fees and complex rules governing reserves. The 501(c)(9) trust vehicle was an extremely valuable tool to allow companies to pre-fund for the cost of post-retirement medical benefits for their retirees. With the much publicized concern for the continued fiscal integrity of Medicare and Medicaid it seems inconsistent that Congress should enact legislation that would stifle private sector initiative to ease the federal burden by pre-funding industry sponsored plans.

Secondly, we are concerned with the abrupt nature of the IRS reaction to cafeteria plans. While the stated motivation for such a position was the loss of tax revenue, it would appear totally inconsistent with the federally endorsed position to curb the alarming escalation of health care costs throughout the nation. Many of our member companies have introduced cafeteria plans with flexible spending accounts for the express purpose of controlling

health care costs. Instead of a "use it or lose it" approach which may, in fact, encourage employees to spend even more without concern about cost containment, incentive features could be retained by allowing employees who do not use the flexible spending account amount to roll-over or carry forward these amounts into ensuing years without penalty. This would afford them the incentive to spend these monies in a more cost-conscious fashion.

Third, we are concerned with the loss of tax exemption for employee educational assistance plans. Companies have sponsored employee educational assistance plans for many years. These plans have given employees the opportunity to seek broadened career opportunities which would not have been financially available to them in the absence of the assistance programs. We feel that the legislation should focus on the objective of producing the most educated workforce in the world and not to hinder the opportunity for employee self-improvement which has been the foundation of our nation's growth. There are a number of other items in the bill which merit comment but time will not allow.

The Retirement Equity Act of 1984

With respect to the Retirement Equity Act of 1984, we are in general agreement with the versions being considered by the Senate and the House of Representatives with one major exception.

There is a proposal in the Congress that early retirement supplements, benefit options, and many other aspects of pension plans will be considered part of the accrued benefit for all participants and, therefore, not subject to removal from the plan. This would effectively eliminate the use of "window" plans which encourage employees who are eligible to retire to do so, and in most cases, receive a form of bonus for such election. This plan allows for the continued employment of workers who may have been laid off or terminated if these job opportunities had not materialized.

We feel that employers should be allowed a degree of flexibility in supplementing retirement benefits to achieve a current economic objective and not be saddled with a perpetual obligation for a pension benefit that is no longer meaningful in light of current economic conditions.

The Future

I would like to briefly address our feelings about the potential areas of benefit legislation in 1985 and beyond.

There has been considerable speculation that there will be major tax reform legislation in 1985. While we concur with the objective of Congress to reduce the huge federal deficits, we respectfully request that Congress not lose sight of the enormous economic security that employer and union sponsored employee benefits provide to workers and retirees. Deficit reduction is crucial to continuation of American economic vitality. Yet great care must be exercised in devising a program to achieve this goal. Some tax favored programs actually increase future tax revenues or reduce needs for government services. For example, tax favored savings programs like pensions, IRAs and 401(k) plans increase countrywide savings and thus stimulate capital formation and economic growth. Other tax favored employee benefits like health insurance efficiently

provide needed services that would otherwise require less efficient government provision. And, no doubt, employees would rather go to their own company benefits manager to answer their health insurance questions than to some anonymous government agency.

Too many times we have heard of the flagrant abuses of tax-exempt benefits by certain individuals. Representatives of management and labor need more opportunities like these hearings to express their viewpoints to interested legislators concerning employee benefits and the relationships to social values and other national issues such as health care cost containment.

When benefit issues are addressed in light of tax reforms, consideration should be given to the social and economic problems that will result if employee benefits are no longer tax exempt. The heaviest tax burden will be imposed on the "middle class" which is reported to represent over 70 percent of those individuals covered by pension and welfare plans. It is interesting to note that less than three percent of covered employees earned over $50,000. Consideration should also be given to the fact that employer sponsored plans remove a significant amount of pressure from federally sponsored social programs.

Industry is willing to continue to bear a significant part of the cost to provide these socially desirable programs for their employees and retirees but a sense of equity demands that there be a continuation of the tax exemption for employee benefits.

Additionally, we believe that all of us, both in public life and in private, need to keep in mind that the constant changes effected and proposed in the employee benefits arena in the past decade have also added significantly to the costs borne by employers in administering these programs and in communicating and effecting frequent, and often confusing, changes. This impacts not only employers in the process of administering these benefit programs and in effecting changes, but also the average employee who is often confronted with confusing and highly technical options, and frequently is unable or unaware of how to take advantage of them. As the Committee looks at our employee benefits programs, we would do well to keep in mind the need for simplicity and cost effectiveness.

We thank the Committee for this opportunity to present our views on these important matters. Our objective is to deal with these issues on an equitable and sound fiscal basis and we would be pleased to assist the Committee and its staff to achieve these results.

Sincerely,

James H. Skaggs
Chairman

Statement of AT&T
in Connection with the Hearings
of the Senate Finance Subcommittee
on Taxation and Debt Management
on the Subject of Fringe Benefits

August 13, 1984

We appreciate the opportunity to offer our comments and opinions on issues relating to private employee benefit plans. AT&T has provided employee benefits since 1913 and currently has benefit plans providing coverage to approximately 375,000 active and 70,000 retired employees.

In order to state our position on the relative issues impacting employee benefits as succinctly and as accurately as possible, we felt it would be effective to use a question and answer format. Therefore, we have divided our statement into two parts: Questions that we would normally raise ourselves in addressing employee benefit plan issues and questions raised by Senator Packwood concerning employee benefits.

AT&T Questions and Answers

QUESTION: WHY DO EMPLOYERS PROVIDE BENEFITS?

ANSWER: We believe employers sponsor employee benefit plans primarily because such programs fulfill a need for personal and family financial security which individual employees may not always recognize or provide for themselves. Employers also provide benefits to assure their competitive position in attracting high calibre employees. The employment relationship offers both a cost efficient vehicle and a degree of expertise in benefit planning that are unique to the workplace. Specifically, employers can take advantage of a group pricing structure which eases the cost impact attributable to demographic changes of the work force over time and concurrently obtain various economies of scale. Furthermore, employers can design benefits which (1) take into account the relative levels of income of the employees thereby responding to a measure of employee needs, and (2) can be coordinated with benefits provided by Federal and State governments in order to avoid duplication.

QUESTION: WHAT ARE THE ESSENTIAL BENEFITS THAT NEED TO BE PROVIDED?

ANSWER: At a minimum, we believe that the employer should provide protection against risks that arise infrequently and impact significantly upon the employee and the employee's family. Such risks are usually attributable to sickness and death. As employees mature in the work force and ultimately retire from the business, we believe that provisions should be made for them to retire in an orderly manner at a fair and reasonable level of income and security. Irrespective of tax policy, these considerations are the major items of concern to most employers and have been addressed by companies since the early 1900's. With respect to retirement benefits, we believe that defined benefit plans are clearly superior to defined contribution plans. Defined benefit plans provide a more predictable level of wage replacement at retirement than defined contribution plans, thereby providing employees with a sense of security that is generally beneficial to the well-being of the entire work force. AT&T provides these benefit coverages to all of its 375,000 active employees, 96% of whom earn less than $50,000.

QUESTION: WHAT ARE THE ADVANTAGES TO SOCIETY OF EMPLOYER-PROVIDED BENEFIT PLANS?

ANSWER: We believe that the provision for employee benefits reduces the burden of welfare expenditures by government and serves as a financial planning aid to employees. In most cases, we believe that individual employees would not make the same comprehensive financial arrangements that are provided through the medium of the employer sponsored benefit plans. Furthermore, benefits provided by employers react more quickly and accurately to the needs of the population in that the benefits are provided to smaller groups in society whose needs are subject to better definition.

For these reasons, we believe that employee benefits are responsive to employee needs and expectations and beneficial to society in general.

QUESTION: WHY DO EMPLOYERS PREFER TO ADVANCE FUND POST-RETIREMENT BENEFIT COVERAGES?

ANSWER: AT&T believes that the advance funding of post-retirement benefits through the establishment of "off-balance-sheet" assets secures the promise to provide the benefits to our retirees. The establishment of a fund irrevocably committed to the provision of employee benefits leaves little doubt that the employer is acting in good faith when promising the payment of a future benefit. Additionally, such funding creates a supply of capital which can be directed to long

term productive use for a healthy and growing economy rather than immediate consumption. Funding provides a higher level of both savings and employment in our economy than would otherwise be the case. Furthermore, we believe that unless costs are funded over the period of time during which benefits are earned, i.e., spread over the working life of the employees who are earning the benefits, business in general will be hard pressed to remain competitive both nationally and internationally. The reason for this is that the absence of advance funding will over time lead to higher employer financing requirements with respect to post-retirement benefits.

Finally, annual accounting recognition of the costs of post-retirement benefits over the active working life time of employees is likely to be mandated by FASB in the future. Advance funding for such benefits will serve to discharge the annual obligation as it arises and would avoid the undesirable accumulation of large liabilities on employers' balance sheets.

QUESTION: HOW SHOULD TAX POLICY AND EMPLOYEE BENEFITS BE RELATED TO EACH OTHER?

ANSWER: It is our opinion that the Federal government should encourage employee benefits that (1) provide significant financial protection against events which are not subject to individual financial planning, and (2) encourage savings for retirement. We believe the current emphasis on deficit reduction with respect to employee benefit tax policy is short-sighted. With regard to group term insurance, such benefits provided by employers result in a reduction of expenditures in government welfare programs. With regard to post-retirement benefits, the Federal government's role should be to provide a tax deferral - not a tax elimination - to encourage employers to guarantee post-retirement benefits.

In the legislative analysis and related material we have seen with respect to tax policy issues, there is an implication that the elimination of tax incentives will increase revenues to the Federal government on a one-to-one relationship and leave everything else unchanged. We believe this assumption to be false. If funding of post retirement benefits is cut back because tax incentives are diminished, we expect that post-retirement benefit levels will be reduced. Employers will not contribute as much as they had been contributing in the past, and employees will not make up the difference. The ultimate result of this scenario will be to convert current savings to current consumption and to shift the burden from the private sector

to the governmental sector, i.e., social security and Medicare. This, in our opinion, produces an unintended and undesirable effect. Indeed the burden on certain government programs is already extreme as can be seen from the 1984 Trustees Report on Social Security. This report shows that for the Hospital Insurance fund, expenditures during the first half of the next century will be almost three times the income to the fund.

Questions Raised by Senator Packwood and Responses of AT&T

QUESTION: Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

ANSWER: We feel that the tax law should provide incentives to encourage employers to provide benefits that protect the employee and the employee's family against the risks attributable to sickness and death, and to encourage retirement benefits and the prudent advance funding of such benefits. The type and level of tax incentive should depend upon the benefit involved. In the case of term life insurance, it is probably better to tax the benefit provided to the beneficiary and allow for appropriate deductions or

credits. With respect to reserve accumulation of post-retirement benefits, the taxes should be deferred until such time as the benefit is paid. Flexibility in funding benefits should be allowed and broadened from its current status. Choices from among several actuarial methods and amortization schedules should be permitted.

QUESTION: What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

ANSWER: Rules should be designed to permit plans to provide coverage to a broad group of employees through simple percentage tests. Demographic factors should not be employed in discrimination tests.

Absolute dollar limits on the amount of benefits that can be paid from a qualified pension plan should be removed where the cost associated with providing benefits in excess of such limits is, in the aggregate, small. If Congress is concerned with limiting deductible amounts, rules should provide that funding may be provided but that deductions in excess of stated maximums must be deferred to the time of benefit payout. Integration should be permitted in order to

reflect equity in pension benefits. In general, an offset approach would be sufficient, e.g., 80% of final pay less 100% of primary social security.

QUESTION: Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

ANSWER: It is apparent that some of the rules are very restrictive. Executives are removed from benefit plans even where the benefits are not deemed to be discriminatory. Thus the individuals who are responsible for decisions regarding the security and welfare of the lower and middle income employees are removed from the protective auspices of the plans.

Also many of the rules require excessive and unnecessary documentation and notification to the employees which are costly to the corporation and provide little if any benefit to the employees (e.g., summary annual reports, notices regarding IRS filings, notices regarding certain prohibited transactions, etc.).

QUESTION: Are the existing tax incentives for benefits such as health care, life insurance, day care, education assistance, and cafeteria plans effective in encouraging employers to

provide these benefits to a broad cross section of employees at a lower total cost than if the government provided the benefits directly, if employers provide the benefits on a taxable basis, or employees purchased these benefits on their own?

ANSWER: We believe that employers have demonstrated that they are providing benefits to a broad cross section of employees at all income levels on a more cost effective basis than could the government. However, the continuation and proliferation of changing and additional regulations are having a negative effect on employers. These regulations are excessive, change too frequently and hamper efficient planning and may cause elimination of some benefit plans.

QUESTION: How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

ANSWER: Compensation planning is directed at current and deferred compensation. Deferred compensation in large businesses is provided to help secure employees from financial catastrophes and provide retirement income. Employers establish target levels of total compensation for each of their positions which may be delivered in either cash or non-cash forms. Compensation policy is concerned with attracting, retaining, and motivating employees. When tax

laws encourage benefits, they become a more attractive option to employees and thus an increased part of the compensation mix. Finally, it is disruptive to change compensation practices on a regular basis. A stable tax policy and stable benefit regulations would allow employers to commit themselves to ongoing cash and non-cash programs with this stability having a positive effect on employee security, expectations, and attitudes.

QUESTION: Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

ANSWER: While direct pay is still a very important consideration, we feel that employees will continue to assign a high value to the level of benefits that are available to them and this will impact on their choice of employment.

CONCLUDING REMARKS

At AT&T, we have a long history of providing employee benefits and view our commitments to our employees as long-term. Accordingly, we have made provisions to meet these financial commitments. Fulfilling these commitments has certainly not been helped by the legislative actions of Congress during the past several

years. The frequent changes imposed by recent tax legislation affecting the business community impacts employers and employees adversely by creating instability in long-term employer commitments and by undermining individual employee financial planning. In the future, we hope that Congress will continue to solicit employer views on tax issues and how they affect the provisions of employee benefits before proposing legislation.

Plan sponsors who wish to provide a sound and secure benefit environment for their workforce need help from Congress. Congress must recognize that abusive tax shelters is an issue that must be isolated from legitimate tax incentives provided to employee benefits and that it should be dealt with separately. As a start we believe the following should be studied:

- Reasonable tests for discrimination:
  e.g., Tests should be designed to prevent the abuses, if any, with which Congress is concerned. Thus, the rules imposed on different sizes, forms, and types of business employers should not necessarily be the same.

- More precise definitions of:
  - accrued benefits
  - actuarial equivalents
  - special one time arrangements
  - individual equity in funded benefit plans

- The implications of maximum limits on benefits relative to tax deductions, funding and plan terminations, and

- Flexibility to finance and provide benefits that are responsive to changing employer and employee needs.

These items need to be worked out and then adhered to for several years in order to avoid reacting prematurely to problems which are more imagined than real.

We appreciate this opportunity to present our comments to this Subcommittee. Again, we strongly believe that the availability of tax incentives and employer sponsored programs are the most efficient and cost effective methods of providing benefits for individuals.

STATEMENT OF

AMERICAN TRUCKING ASSOCIATIONS, INC.

on

Fringe Benefits

Before the

Subcommittee on Taxation and Debt Management
Committee on Finance
U.S. Senate

August 13, 1984
Washington, D.C.

The American Trucking Associations, Inc. (ATA) is the national trade association of the trucking industry, a federation of associations in all 50 states and the District of Columbia representing both regulated motor carriers and private fleets. Our member trucking companies provide a wide range of benefits to their employees both directly and through collectively bargained pension, health and welfare plans. We are concerned that Congress, in its well-intentioned attempts to eliminate abuses of the current tax rules concerning fringe benefits, will unintentionally disrupt existing relationships between trucking companies and their employees to the detriment of both. Therefore, we welcome this opportunity to comment on fringe benefits in connection with the hearings which your subcommittee held on July 26, 27 and 30, 1984.

Tax Code Should Complement Legitimate Employee Fringe Benefits

The Internal Revenue Code has long been used as a means of ensuring that workers and their families have financial protection in times of sickness, death and old age. As employers have responded to changes in the work force and in the economy over the years in structuring their employee benefit programs, Congress has made complementary changes in the tax code. In response to rising costs of health insurance, for example, Congress permitted employers to self-fund medical and other benefits for their employees. As family needs have changed and more

employees have become covered under a spouse's benefit programs, Congress has permitted employers to provide more flexible benefits through so-called "cafeteria plans" which avoid needless duplication of benefits and unnecessary costs for the employer.

This past year, however, has represented a marked departure from Congress' traditional willingness to work with employers to provide adequate benefits to employees at a reasonable cost. With little study or discussion, proposals to cap employer deductions for medical benefits were made and, to the extent such benefits are provided through exempt trusts, enacted in the Deficit Reduction Act of 1984. We are particularly disturbed that these limits were imposed on employer contributions to plans, including collectively-bargained plans, covering large numbers of workers without adequate study. There is no indication that Congress had examined such plans to see what the effect of the proposals would be on employers and their employees. Nor did Congress find any evidence of tax abuse in the funding of such plans.

Other provisions of the Deficit Reduction Act highlight the difficulties created when Congress acts quickly to enact provisions affecting employee benefit plans without adequate study. In 1982, Congress made significant changes concerning qualified pension plans. In 1984, Congress was forced to modify many of those provisions because they were either unworkable or did unintended harm. For example, in 1982 Congress enacted new

distribution rules which required plans to pay survivor benefits within 5 years of an employee's death unless the beneficiary was the employee's surviving spouse. This change, while intended to prevent wealthy individuals from reducing their tax burden by spreading payments over the life of a young beneficiary, produced a negative result.

Many pension plans provide survivor benefits for the life of an employee's children, particularly where the children are minors or are dependant because of a physical handicap or mental illness. Once Congress learned that such provisions were widespread and served legitimate and desirable purposes, it moved to correct the problem, but not before creating a great deal of uncertainty and expense for both plans and employers in amending plans which now must be re-amended to comply with the new law. This seemingly constant changing of plan standards with little public discussion beforehand is both disruptive and costly.

Congress Should Move Cautiously in Enacting Legislation Changing Employee Benefits

In looking for ways to reduce the federal deficit, fringe benefits may seem an attractive target as "luxuries" that the federal government can ill-afford in times of fiscal austerity. Yet these so-called luxuries often provide necessary protections to employees and their families in areas such as health care, disability benefits, life insurance and pensions. Reducing tax

incentives for these employee benefits as a cost-savings measure is short-sighted. The cost of many of these benefits would ultimately be borne by federal programs such as Medicare, Medicaid or Social Security, at more cost to the federal government and less efficiently than if such benefits continue to be provided directly to employees by their employers.

As employers, the members of ATA are as concerned as Congress at the rising costs of employee benefits and are striving to keep those costs down. Unfortunately, much of the discussion about reducing "tax-favored" benefits has focussed on cafeteria plans, which permit employees to choose among a number of available benefits. Many employers have instituted such plans as cost-saving measures rather than as means of offering exotic new benefits. By allowing employees to choose among available benefits in a cafeteria plan rather than providing a fixed benefit package for all employees, employers can eliminate the cost of benefits that are unneeded or that duplicate other coverage that the employee has. At the same time, the employee who must decide how to spend his or her benefit dollars is more aware of the cost of those benefits than the employee who is merely "given" the benefit. Deductibles and co-insurance features in health insurance programs, even when coupled with cash to meet the employee's portion of the medical costs, can reduce the total cost of health coverage as employees become more careful consumers of medical services. The result is a more efficient benefit package that

suits the needs of each employee without increasing the employer's costs. Congress should be applauding such efforts rather than moving to stifle them.

Another area that has come under attack is employer funding of health and welfare benefits for employees. The impact of restricting funding of such benefits must be carefully considered before any changes are made. Recent news stories have focused on retirees and their beneficiaries who have lost medical benefits when a former employer went out of business. The Financial Accounting Standards Board is considering proposals that would require employers to recognize the cost of retirees' benefits on their balance sheets. At the same time, a proposal passed by the House of Representatives would have arbitrarily limited an employer's funding of retirees' benefits. That measure was modified before enactment to permit funding of retirees' benefits on an actuarially sound basis over their working lives. The very fact that an arbitrary limit was included in a major tax bill, however, illustrates the danger of moving to correct perceived abuses without considering the long-term impact on both employees and employers.

These concerns have been brought to the fore by the recent changes affecting employee health and welfare plans which Congress enacted as part of the Deficit Reduction Act. Even more disturbing, however, have been suggestions to restrict contributions to pension and profit-sharing plans or to tax income of

such plans. Changes mandated by the Employee Retirement Income Security Act of 1974 (ERISA) and subsequent legislation over the past ten years have already substantially increased employers' costs for their retirement plans. Ironically, complaints about the large untaxed body of pension assets overlook the fact that pension assets are large today precisely because Congress mandated funding of pension benefits in ERISA as a safeguard for employees' pensions. Far from representing some type of elaborate tax-shelter, retirement plans -- both traditional pension plans and the more recent 401(k) plans -- offer security for employees in their later years to supplement a Social Security system which has already reached its limits.

Conclusion

ATA urges the Congress to be cautious in making changes that affect the millions of American workers who are covered by pension, health and welfare plans for all of the foregoing reasons. Indeed, these hearings are an important step in that direction. ATA stands ready and willing to examine specific proposals for changing employee benefit plans to determine their impact, and where abuses are found to exist, to support such changes.

AMERITECH
AMERICAN INFORMATION TECHNOLOGIES

MARTHA L. THORNTON
Vice President

225 West Randolph Street, HQ 17-F
Chicago, Illinois 60606
312/750-5440

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Finance Sub-Committee on Taxation and Debt Management
Hearing on Fringe Benefits, July 26, 27, and 30th, 1984

Dear Mr. DeArment:

Ameritech, Inc. welcomes the opportunity to comment on the hearing on fringe benefits named above to be included in the printed record of the hearing. Ameritech wants to thank Congress for its traditional interest in and support of employee benefits.

Ameritech presently employs about 79,000 people in the Midwest and there are over 141,000 retired employees and their dependents of our five Bell Operating Companies for whom we provide benefits. Obviously, the encouragement that tax laws have provided in the past fostered the development of employee benefits. Our employees and retirees are highly appreciative of their benefits. But given unfavorable tax treatment, we foresee reductions over time of important benefits, such as post-retirement medical, and increased salary demands by employees to offset the tax consequence of remaining benefits.

Ameritech has always had a high percentage of female employees, currently about 52%, and we traditionally have encouraged full career service. Our pension benefits replace a higher percentage of pay for the lower paid and our benefit plans and company philosophies do not reflect any bias.

Without tax incentives, the benefits our employees have come to rely upon would become prohibitively expensive for our company to continue at present levels, especially given competitive times and the challenges which face our industry in particular post-divestiture.

The vast majority of benefits are most efficiently and effectively provided by private employers rather than government agencies. Companies are in the best position to communicate with their workforce, develop benefit plans which address employees' welfare and security needs, and implement those programs. As you know, there are large costs incurred in this process... costs which are only partially offset by favorable tax treatment.

Ameritech feels that the tax treatment currently afforded employee benefits continues to fulfill objectives which are good for our economy and society in general and have their foundation in historical tax policy. Benefits are a cost of doing business and they are indirect compensation to employees. As such, they ought to continue to receive their traditional tax incentives.

We would like to see Congress encourage the private sector to maintain its traditionally high levels of employee benefits which are so important to American workers and their families. We would also ask Congress to enact future legislation which simplifies rather than complicates the already involved and expensive task of administering employee benefits. Clear rules on flexible plans are also important to Ameritech and our employees.

Ameritech wishes to thank you once again for the opportunity to express our views. We believe that the private sector of our economy needs to be given the opportunity and incentive to do the best we can in the area of employee benefits.

Sincerely,

PRACTICE LIMITED TO UROLOGY

BY APPOINTMENT

KENNETH N. ANDERSON, M.D., INC., P.S.
801 BROADWAY SUITE 730
SEATTLE, WASHINGTON 98122
623-5912

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building SD 219
Washington, D.C. 20510

Dear Mr. DeArment,

Consistent with your requirements: I am submitting this letter and attached statement to be included as part of the record of the Hearing On Employee Fringe Benefits to be held July 26, 27 and 30 by the United States Finance Comittee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Kenneth N. Anderson, M.D.

Kenneth N. Anderson, M.D.

KNA:jv

THIS REPORT IS BEING SUBMITTED ON BEHALF OF MY EMPLOYEES FOR THE MAINTENANCE OF A VIABLE QUALIFIED PENSION AND OR PROFIT SHARING RETIREMENT PLAN.

The only way this great nation can regain fiscal stability is through support and promotion of private sector, qualified pension and profit sharing retirement plans. Citizens of the United states contribute less percentage wise to saving than virtually any other population in Western Civilization. There are a few incentives for our populous to save. Qualified pension and profit sharing retirement plans are an outstanding exception to this general rule. IRA and KEOGH plans are an additional help.

Without the tax incentive(deductible deposits) the private sector would surely close their Qualified Plans, take larger bonuses, and benefit no one but the owners. Few would continue to provide Pension Plans to their employees unless required to do so by Union contract. As the Social Security tax becomes more burdensome, the pressure to cancel Pension and Profit Sharing Plans increases even now while they are deductible. The tendency to cancel all Plans would certainly increase dramatically if deposit were not deductible

The private sector provides a substanstial benefit to large numbersd of employees that would not have a supplement to Social Security without this support from private industry. The very fact that most people do not have an IRA and that most people would not set aside the tax money presently paid on Social Security, proves that Social Security and private Pension Plans are both necessary for the continued good of this country. As workers have strived for their entire life to accumulate and seldom accumulate much more than their home (which is even becoming more difficulty to do under the high interest rate), it is necessary that the private sector provide a substanstial amount of the total income for retirement.

Doing away with the private sector will possibly help Social Security. If people did not have the private sector supplement for their retirement, they would have to continue working (postponing) payouts from Social Security) and they would continu to pay taxes.

Enclosed with this report is a recent advertisement from the Wall Street Journal from Mobil expressing additional benefits of the private sector.

A
Statement For
Inclusion in the Written Record of the

United States Senate
Committee on Finance

Subcommittee on Taxation and Debt Management

Hearing on Employee Fringe Benefits
July 26, 27 & 30, 1984

On

The Fairness and Cyclical Costs of Employer Pension Plans
New Survey Findings

By
Dr. Emily S. Andrews*

The views in this statement are those of the author and do not necessarily reflect those of the Employee Benefit Research Institute, its Trustees, members or other staff. This statement does not represent an attempt to aid or hinder the passage of any bill pending before Congress.

Emily Andrews earned her PhD in economics from the University of Pennsylvania Dr. Andrews presently holds the position of Research Associate at the Employee Benefit Research Institute. Previous positions include.those of Branch Chief at the Social Security Administration and Labor Economist with the U.S. Department of Labor.

CONTENTS

SUMMARY 1

STATEMENT 3

INTRODUCTION 3

WHO BENEFITS FROM EMPLOYER PENSIONS 6
A Middle Income Benefit 7
Women are Gaining 12
New Evidence on Vesting 17

THE COSTS OF THE BUSINESS CYCLE 22
The Aggregate Figures 23
An Industrial Analysis 25
Statistical Quirks 33

THE FULL PICTURE 38
Conclusion 41

Notes 42

AUTHOR'S BIOGRAPHY 43

TABLES

Table 1 Employment, Coverage and Vesting: Distribution by Earnings 8
Table 2 Cumulative Distribution of Employment, Coverage and Vesting by Earnings 11
Table 3 Cumulative Distribution of IRA and Spousal IRA Participation by Earnings 13
Table 4 The Status of Coverage and Vesting among Women and Men 14
Table 5 Cumulative Distribution of Employment and Coverage by Earnings for Women and Men 16
Table 6 Vesting among Nonagricultural Wage and Salary Workers and the ERISA Work Force by Age and Sector 19
Table 7 Utilization of Voluntary Retirement Programs among Private Nonagricultural Wage and Salary Workers by Age and Type of Program 21
Table 8 Employment, Coverage and Future Benefit Entitlement before and after the Recession 26
Table 9 Cyclical Changes in Employment and Coverage in the ERISA Work Force by Industry 29
Table 10 Cyclical Changes in Employment Characteristics of the ERISA Work Force by Industry 30
Table 11 Employment, Coverage and Future Benefit Entitlement before and after the Recession (adjusted for missing data) 37
Table 12 Cumulative Distribution of Employment, Coverage and Vesting by Earnings for the ERISA Work Force 40

SUMMARY

This testimony* investigates two basic issues concerning the fairness and efficiency of employer pension plans, the keystone of our employer benefit system:

(1) Does the existing system of tax incentives ensure that pension benefits treat all employees fairly? and;

(2) What are the relative cyclical costs of the pension system for a cross-section of employees?

The data supporting the analysis stem from a new nationwide survey sponsored by the Employee Benefit Research Institute (EBRI) in conjunction with the Department of Health and Human Services, and conducted by the U.S. Bureau of the Census in 1983. The survey represents, in part, a follow-up to a similar effort conducted in May 1979 and funded by the Department of Labor and the Social Security Administration. The EBRI/HHS survey parallels the May 1979 effort but adds new information on lump-sum benefits, individual retirement accounts (IRAs) and section 401(k) salary reduction programs.

Analysis of the distribution of coverage and vesting by earnings category indicates that pensions are broadly distributed among lower and middle income workers. In particular, 76 percent of all nonagricultural wage and salary earners covered by a pension earn $25,000 a year or less. Similarly, 70 percent of all vested benefits belong to nonagricultural employees earning $25,000 or less.

---

* Portions of this testimony were drawn from a forthcoming EBRI study, The Changing Profile of Pensions in America and from EBRI Issue Brief #33, "New Survey Findings on Pension Coverage and Benefit Entitlement" (August 1984).

May 1983 EBRI/HHS survey data also show that women are gaining pension entitlement in greater numbers than ever before. Among those women meeting ERISA standards for plan participation, coverage expanded by 2.2 million workers since 1979 and nearly 1.3 million more women became entitled to pension benefits at retirement.

The 1983 EBRI/HHS survey also provides the first information on entitlement to lump-sum benefit receipt. The addition of lump-sum benefits increases the total vesting rate by over 10 percentage points for private-sector employees and by nearly 20 percentage points for public-sector workers. Total vested benefits increase gradually with age providing greater protection as workers near retirement age. A comparison of total vested benefits with utilization rates from IRA and 401(k) plans indicates that coverage provided by employer plans is broader than that selected by individuals themselves.

Changes in coverage and pension entitlement between the May 1979 and May 1983 surveys are also investigated in order to determine the cyclical costs of the recession on the pension system. At the time of the survey the unemployment rate was at 10.1 percent, just six months after the business cycle trough. Nevertheless, employment growth since 1979 among those workers meeting ERISA standards led to an increase of over one million workers covered by a pension plan or a total of 38 million employees. (Coverage among all nonagricultural wage and salary workers totaled 49.5 million.)

STATEMENT

INTRODUCTION

Employer pension plans are frequently regarded as the cornerstone of our employer benefit system. Consequently, any assessment of the effectiveness of tax incentives in encouraging employer benefits must consider the success of pension plans in meeting future retirement income needs. The nation appears to be approaching a crossroads in pension policy. While tax incentives for the development of a fair employer pension system have been a consistent pulbic policy landmark, the recent deficit crisis suddenly has placed pensions on the firing line. Some researchers even predicted a diminution of policy support for retirement before the current balooning deficit. In 1980 William Graebner stated in A History of Retirement,

> A century after retirement became an important instrument of social and economic policy, we are preparing for its disappearance, again in a context established by the needs of capital and with the acquiescence of most Americans. We expected too much from retirement. We believed retirement would rejuvenate and stabilize the teaching profession, the churches, and the factories; spare us the distress of an aging bureaucracy; allow the payment of lower salaries; distribute work in declining industries and in an economy that, in many, sometimes lengthy periods over the last century, has failed to employ all who wanted to work. In our current difficulties, we assume that by reversing the process and dismantling the edifice of retirement, we can reinvigorate an economy that has lost its fine competitive edge. This is the mirror-image of the historic assumption that retirement is a powerful and inexpensive instrument of social reconstruction. A new myth replaces the old."

Public policy must not be conducted by the perpetration of myths. Today's information technology enables researchers and legislators to carefully consider the facts before proposing legislative changes. Senator Packwood's

statment that the purpose of the Subcommittee on Taxation and Debt Management hearings is "to develop a full, fair hearing record on current fringe benefit topics" reflects the desire of Congress to rely on facts rather than myths.

Work-in-progress at the Employee Benefit Research Institute Institute (EBRI) can provide insights into some of the issues of interest to the Subcommittee in their investigation of the effect of tax policy on employer benefits. This testimony presents new findings on the fairness and efficiency of the pension system using data from an EBRI-sponsored survey on pension coverage and entitlement, funded in conjunction with the Department of Health and Human services.

The survey, conducted by the Bureau of the Census in May 1983, represents a follow-up to an earlier May 1979 effort funded by the Department of Labor (DOL) and the Social Security Administration (SSA). The May 1983 survey goes beyond the scope of the previous study, however, by asking additional questions about lump-sum, distributions, individual retirement accounts (IRAs) and deferred compensation plans under section 401(k).1/

In particular, using the May 1983 EBRI/HHS CPS pension supplement, we will address two issues of policy interest to the Subcommittee on the equity and economic costs of the system:

(1) Does the existing system of tax incentives ensure that pension benefits treat all employees fairly? and;

(2) What are the relative cyclical costs of the pension system for a cross-section of employees?

In terms of equity, the following topics are pursued. What income groups benefit from employer pensions? Do patterns of benefit entitlement ensure that workers will be entitled to pension benefits when they reach retirement age? Do men and women partake equally in the pension system?

Analysis of the pension supplement data provides insights into the fairness of the pension system that have been neglected in earlier studies. In addition, earlier findings on coverage and benefit equity are reevaluated and the extent of vesting is recalcualted using new information on IRA participation, 401(k) coverage and lump sum benefits from the updated survey. Pension benefits are found to be broadly based and can be expected to provide an important income support for millions of future retirees.

Because the May 1983 EBRI/HHS CPS pension supplement was conducted just after the 1982 recessionary trough, the effect of the worst cyclical downturn in four decades can be analyzed. The cyclcial behavior of coverage measures the cost of the downturn for pension protection. While the recession adversely affected plan growth, pensions still covered a majority of the labor force and the number of vested workers expanded. Private sector coverage rates fell less strongly than public sector rates suggesting that during the downturn the costs of coverage slippage were less severe for private sector employees.

Furthermore, employer pensions have not suffered a financial crisis comparable to that suffered by Social Security. Funded plans are designed to withstand cyclical uncertainties. The pay-as-you-go Social Security

39-707 O - 85 - 12

system was buffeted by the results of sluggish economic growth in which prices rose faster than wages. As a consequence, indexed benefits exceeded contributions culminating in a period of double digit unemployment. In sum, although the pension system bore certain recessionary costs, its structural underpinnings remained sound.

WHO BENEFITS FROM EMPLOYER PENSIONS

The fairness of the pension system will be analyzed according to information on the distribtuion of coverage and vesting by earnings, age and sex. The core of the May 1983 pension supplement lies in a series of questions about pension coverage and entitlement. These remained virtually unchanged from the May 1979 DOL/SSA pension supplement to ensure comparability. The three core questions in these and other surveys of this type are on coverage participation and future benefit entitlement.2/

Although these three questions appear straightforward, many survey respondents appear to have difficulty interpreting them and provide inappropriate answers from time to time. This problem has been recognized by other analysts of pension coverage and entitlement. It is probably a result of the complex nature of the pension system itself.

In particular, evidence suggests that certain employees misinterpret the coverage question and respond as if they were asked about participation, i.e. whether they were <u>included</u> in the plan. Because this leads to incorrect participation responses, the coverage question appears to provide the most

reasonable way to count the number of employees who may be eligible for future retirement benefits. Only findings on coverage and future benefit receipt are reported in this Testimony.

Much of the analysis focuses on two groups in the labor force--paralleling previous EBRI work on this topic.3/ The first group consists of all nonagricultural wage and salary workers. The noncorporate self employed are excluded as they can provide their own coverage through Keogh plans. Farm workers tend to be a temporary low-wage work force whom many believe are better covered through federal programs such as Social Security and Supplemental Security Income (SSI).

The second group consists of those workers with sufficient labor force attachment to accrue meaningful retirement benefits if covered by an employer pension plan. This group is referred to as the ERISA work force and is composed of employees meeting ERISA participation standards. These workers are between twenty-five and sixty-four years of age who work at least 1,000 hours annually and have been with their employer for one year or more.

A Middle Income Benefit

Table 1 provides information on the distribution of benefit entitlement from three perspectives. The top panel shows the absolute number of nonagricultural workers employed, covered or vested in a public or private pension plan. Of the 88.2 million nonagricultural wage and salary workers, 49.5 million were covered by a pension plan and 28.7 million had accrued

vested benefits. Both statistics far exceed the 13.7 million employees who earn over $25,000. The majority of employees who have a pension plan never see an expense account or a golden parachute.

The tabulations in the second panel of table 1 have traditionally been used to analyze pension coverage. They show that coverage and vesting rates generally rise with higher earnings. The ratio of covered workers to employment rapidly increases from less than one out of four workers earning under $5,000 a year to nearly two out of five earning between $20,000 and $24,000 a year. Coverage rate increases tend to moderate by the $20,000 level.

The third panel of table 1 shows the distribution of employment, pension coverage and vesting across income groups: in other words, the ratio of all workers within a particular income bracket who are employed, covered or vested in a pension plan to the total number of employed, covered or vested workers. These statistics clearly show the prevalence of pensions among middle-income workers. More than half the work force, 51 percent of all nonagricultural employees, earns between $10,000 and $25,000 per year. A greater proportion of pension coverage is directed towards these middle-income workers, however. Covered workers within those income categories constitute nearly 59 percent of pension coverage. Furthermore, almost 62 percent of all vested workers fall within the $10,000 to $25,000 per year range.

TABLE 1: EMPLOYMENT, COVERAGE AND VESTING: DISTRIBUTION BY EARNINGS FOR NONAGRICULTURAL WAGE AND SALARY WORKERS, MAY 1983

EARNINGS	Number of Workers (000's) Employment	Coverage	Total Vested Benefits
Total	88,214	49,530	28,708
$1-4,999	10,014	2,433	358
$5,000-9,999	15,323	5,747	2,023
$10,000-14,999	17,827	10,328	5,484
$15,000-19,999	13,101	9,422	5,874
$20,000-24,999	10,283	8,159	5,641
$25,000-29,999	5,515	4,365	3,048
$30,000-50,000	6,611	5,547	4,071
$50,000 and over	1,615	1,371	1,106
Not reported	7,924	2,158	1,105

	Percentage Distribution Within Earnings Group: Employment	% Covered to Employed	% Vested to Employed
Total	100.00%	56.15%	32.52%
$1-4,999	100.00	24.29	3.57
$5,000-9,999	100.00	37.51	13.20
$10,000-14,999	100.00	57.93	30.76
$15,000-19,999	100.00	71.92	44.83
$20,000-24,999	100.00	79.34	54.85
$25,000-29,999	100.00	79.14	55.26
$30,000-50,000	100.00	83.91	61.57
$50,000 and over	100.00	84.90	68.50
Not reported	100.00	27.23	13.94

	Percentage Distribution Across Earnings Groups[a]: % Employment	% of Coverage	% of Total Vesting
Total	100.00%	100.00%	100.00%
$1-4,999	12.47	5.14	1.30
$5,000-9,999	19.08	12.13	7.33
$10,000-14,999	22.20	21.80	19.87
$15,000-19,999	16.32	19.89	21.28
$20,000-24,999	12.81	17.22	20.43
$25,000-29,999	6.87	9.21	11.04
$30,000-50,000	8.23	11.71	14.75
$50,000 and over	2.01	2.89	4.01

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

[a] Percentages exclude 9.0% of employees whose earnings are not reported.

Another way to examine the distribution of pension benefits is through statistics on the cumulative distribution of employment, coverage, and vesting by earnings. The data in table 2 are presented in this manner. In this case, the proportion of employment, coverage, or vesting held by employees earning less than a specific amount is calculated. Nearly 83 percent of all nonagricultural wage and salary workers earn less than the $25,000 cut off. Pension coverage and vesting roughly parallel the income distribution with 76 percent of covered workers and 70 percent of those holding vested benefits earning less than $25,000 as well. These roughly equivalent distributions are found despite the fact that many workers earning less than $5,000 a year do not meet ERISA participation standards.

The May 1983 EBRI/HHS CPS pension supplement expanded the definition of vesting to include workers expecting lump sum distributions as well as those anticipating future pension benefits. The proportion of vested workers earning less than $25,000 a year is raised two percentage points above the 68 percent rate posted when only future pension receipt is considered. In fact, 77 percent of those expecting only lump sum distributions earn less than $25,000.

IRAs and Earnings-- The cumulative distribution of vested benefits by earnings under employer pension plans can be compared to the cumulative distribution of IRA participation using tables 2 and 3. Table 3 shows that 61 percent of nonagricultural employees using IRAs earn less than $25,000 per year in comparison to 70 percent of those vested in a

TABLE 2: CUMULATIVE DISTRIBUTION OF EMPLOYMENT, COVERAGE AND VESTING BY EARNINGS[a] FOR NONAGRICULTURAL WAGE AND SALARY WORKERS AND THE ERISA WORK FORCE, MAY 1983

EARNINGS	Employment Distribution	Coverage Distribution	Vesting Distributions: Total Vesting	Vesting Distributions: Benefit Entitlement
Nonagricultural Wage and Salary Workers				
Total Employees (000's)	88,214	49,530	28,708	22,217
less than $5,000	12.47%	5.14%	1.30%	1.26%
less than $10,000	31.55%	17.27%	8.63%	7.78%
less than $15,000	53.57%	39.07%	28.50%	26.30%
less than $20,000	70.07%	58.96%	49.78%	47.13%
less than $25,000	82.88%	76.18%	70.21%	68.12%
less than $30,000	89.75%	85.39%	81.25%	79.77%
less than $35,000	97.98%	97.10%	96.00%	95.51%
Total Earnings	100.00%	100.00%	100.00%	100.00%
ERISA Work Force				
Total Employees (000's)	54,363	38,058	25,480	20,027
less than $5,000	2.50%	1.05%	0.61%	0.54%
less than $10,000	16.21%	9.67%	6.54%	5.98%
less than $15,000	39.46%	30.70%	25.45%	23.82%
less than $20,000	59.54%	52.39%	46.98%	44.85%
less than $25,000	76.48%	71.98%	68.40%	66.67%
less than $30,000	85.89%	82.86%	80.08%	78.85%
less than $35,000	97.13%	96.48%	95.71%	95.23%
Total Earnings	100.00%	100.00%	100.00%	100.00%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

[a] Percentages exclude 9.0% of nonagricultural wage and salary workers and 4.1% of the ERISA work force whose earnings are not reported.

pension plan. Spousal IRAs are less well distributed toward middle-income workers with only 40 percent of spousal IRAs held by those earning less than $25,000. Those eligible to contribute to a spousal IRA are more likely to be found in the upper income brackets. Only 47 percent of those contributing to an IRA with a nonworking spouse earn less than $25,000 a year. (The eligible population represents about 20 percent of all IRA participants.)

Employer provided pensions are concentrated toward the lower three-quarters of the income distribution and provide more broad-based coverage than the coverage employees provide themselves through individual retirement accounts.

Women are Gaining

Table 4 provides comparative statistics on coverage and vesting for men and women. Women made considerable employment gains between 1979 and 1983 growing by 3.3 million nonagricultural wage and salary earners. Women's employment gains were translated into improvements in coverage and vesting. The number of female wage and salary earners covered by a pension plan increased by 660,000 workers, while the number of women entitled to future retirement benefits jumped by 1.2 million.

By contrast, male employment edged down by 278,000 employees in the face of the most severe recession since World War II. Pension protection for men slipped through layoffs, dismissals and plant closings in many of the high

TABLE 3: CUMULATIVE DISTRIBUTION OF IRA AND SPOUSAL IRA PARTICIPATION BY EARNINGS[a] FOR NONAGRICULTURAL WAGE AND SALARY WORKERS AND THE ERISA WORK FORCE, MAY 1983

EARNINGS	Employment Distribution	IRA Distribution	Distribution among Those Eligible for Spousal IRA: Contributes to IRA	Distribution among Those Eligible for Spousal IRA: Established Spousal IRA
Nonagricultural Wage and Salary Workers				
Total Employees (000's)	88,214	14,972	2,988	1,718
less than $5,000	12.47%	5.08%	2.91%	[b]
less than $10,000	31.55%	14.45%	7.98%	5.39%
less than $15,000	53.75%	28.91%	17.47%	11.30%
less than $20,000	70.07%	45.98%	31.93%	25.57%
less than $25,000	82.88%	61.47%	47.48%	40.36%
less than $40,000	89.75%	73.40%	60.35%	51.58%
less than $50,000	97.98%	92.76%	84.87%	79.98%
Total Earnings	100.00%	100.00%	100.00%	100.00%
ERISA Work Force				
Total Employees (000's)	54,363	11,900	2,373	1,413
less than $5,000	2.50%	1.11%	0.88%	1.30%
less than $10,000	16.21%	8.86%	4.18%	3.09%
less than $15,000	39.46%	23.52%	13.77%	9.39%
less than $20,000	59.54%	41.07%	28.63%	21.99%
less than $25,000	76.48%	57.58%	43.61%	38.34%
less than $30,000	85.89%	70.96%	57.81%	50.31%
less than $50,000	97.13%	91.87%	83.65%	79.05%
Total Earnings	100.00%	100.00%	100.00%	100.00%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

[a] Percentages exclude 9.9% of nonagricultural wage and salary workers and 4.1% of the ERISA work force whose earnings are not reported.

[b] Number of workers too small for reliable rates to be calculated.

coverage manufacturing industries.4/ As a result, the proportion of women among covered wage and salary workers increased from 39.1 percent to 42.4 percent. Similarly, the proportion of future pension benefits claimed by women jumped from 31.7 percent to 36.1 percent. (The proportion of total vested benefits accrued by women was 37.9 percent in 1983.) These gains were in keeping with the increase in the share of female employment from 43.1 to 45.4 percent of all workers.

TABLE 4: THE STATUS OF COVERAGE AND VESTING AMONG WOMEN AND MEN, MAY 1979 AND MAY 1983

	Women (000's)		Men (000's)		Percent Female	
	1979	1983	1979	1983	1979	1983
Nonagricultural Wage and Salary Workers						
Employment	36,704	40,015	48,477	48,199	43.1%	45.4%
Covered Workers	20,355	21,015	31,664	28,515	39.1%	42.4%
Total Vested Workers	[a]	10,884	[a]	17,824	[a]	37.9%
Workers Entitled to Future Benefit	6,790	8,018	14,609	14,199	31.7%	36.1%
ERISA Work Force						
Employment	18,847	22,970	30,888	31,393	37.9%	42.3%
Covered Workers	12,972	15,207	23,918	22,851	35.2%	40.0%
Total Vested Workers	[a]	9,427	[a]	16,053	[a]	37.0%
Workers Entitled to Future Benefit	5,778	7,065	13,164	12,962	30.5%	35.3%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement.

[a] Data not available for 1979.

The number of women meeting ERISA standards for plan participation also grew considerably as full-time employment became more prevalent. In 1979 only 51.3 percent of all female wage and salary workers were in the ERISA work force, compared to 63.7 percent of men. By 1983 the female percentage rose to 57.4 percent, as the proportion of men meeting ERISA standards edged up to 65.1 percent. The increase in the proportion of women in the ERISA work force represented a gain of 4.1 million workers. Coverage for this group expanded by 2.2 million workers and nearly 1.3 million more women gained entitlement to future pension benefits.

These improvements in pension protection increased the proportion of women among covered and vested workers within the ERISA work force. By 1983 over 40 percent of all covered workers and 35 percent of all future benefit recipients were women. (Women made up 37 percent of those entitled to total vested benefits, including lump-sum distributions.) The relative gains in pension coverage and benefit entitlement allocated to women stem from increased female employment and from a larger percentage of that work force meeting ERISA standards.

Despite these gains, the most striking difference in labor force characteristics between men and women has been the persistence of the wage gap. A large body of economic literature tries to explain the existence of wage differentials between men and women. Leaving these unanswered questions aside, table 5 provides greater detail on the distribution of earnings for the ERISA work force. Women are more than four times as likely to earn less than

$10,000 and over twice as likely to earn less than $15,000 than men. Those earning less than $10,000 are less likely to be covered by a pension plan and more likely to have a higher Social Security replacement rate. Nonetheless, 76 percent of pension coverage is allocated to the 81 percent of the women within the ERISA work force who earn less than $20,000 a year, reinforcing the conclusion that pensions are a middle income benefit distributed closely in accordance to the income distribution.

TABLE 5: CUMULATIVE DISTRIBUTION
OF EMPLOYMENT AND COVERAGE BY EARNINGS[a]
FOR WOMEN AND MEN IN THE ERISA WORK FORCE, MAY 1983

EARNINGS	Distribution of Women		Distribution of Men	
	Employment	Coverage	Employment	Coverage
Total Employees (000's)	22,970	15,207	31,393	22,851
less than $5,000	4.84%	2.10%	0.76%	0.35%
less than $10,000	28.56%	18.32%	7.01%	3.88%
less than $15,000	60.81%	51.51%	23.56%	16.77%
less than $20,000	81.28%	76.28%	43.35%	36.40%
less than $25,000	92.30%	90.23%	64.70%	59.77%
less than $30,000	96.62%	95.61%	77.89%	74.33%
less than $50,000	99.66%	99.54%	95.23%	94.44%
Total Earnings	100.00%	100.00%	100.00%	100.00%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

[a] Percentages exclude 4.8% of men and 3.1% of women whose earnings are not reported.

New Evidence on Vesting

Table 6 shows that the percentage of private-sector workers with vested benefits generally increases with age. Around two-thirds of all covered wage and salary workers forty-five years of age and older are vested. Vesting rates fall again once workers reach sixty-five years of age. The proportion of vested public-sector workers follows a similar age pattern with vesting peaking in the early 60's at 88 percent of coverage.

Using the May 1983 EBRI/HHS CPS pension supplement, vested benefits can be broken down into two complementary components for the first time: (1) entitlement to future retirement income and (2) entitlement to a lump-sum payment. The addition of lump-sum benefits increases the total vesting rate by over 10 percentage points for the private sector and by nearly 20 percentage points for public sector wage and salary workers. Comparable vesting gains are found for the ERISA work force as well. Furthermore, the age profile of entitlement to future retirement income charts a steeper path than that exhibited by total vested benefits. As a consequence, the addition of lump-sum benefits totally changes our conception of the degree of vesting provided by employer pensions.

Employees anticipate the receipt of lump-sum benefits in several ways: (1) as cash outs of their own contributions, (2) as distributions of defined contribution plan balances upon separation from the firm, or (3) through cash-out provisions for very small vested benefits from defined benefit plans. The age profile of lump-sum entitlement is the opposite to that found

for benefit entitlement at retirement. A greater percentage of younger workers anticipate lump-sum cash outs. Although the expectation of lump-sum recipiency jumps at age twenty-five to 13 percent of covered private sector employees and 27 percent of covered public-sector workers, it diminishes thereafter. Private-sector rates tumble at age sixty to just 5 percent. This decline may reflect two factors. First, younger workers are more likely to change jobs, and their expectation of lump-sum entitlement probably reflects this reality. Second, younger workers may be more likely to be employed by expanding firms who have recently instituted defined contribution plans.

Lump-sum entitlement among public sector employees is nearly twice as high as that in the private sector. Within the ERISA work force, more than one-fifth of all covered public employees expect to receive only a lump-sum benefit, compared to less than one-eighth of those covered under private-sector employment (see table 6). The higher public-sector rate reflects the greater prevalence of contributory plans which may be cashed out upon termination of employment.

Public-sector rates of future benefit entitlement within the ERISA work force average over one-third higher than private-sector rates. These factors lead to nearly a 25 percentage point spread between private sector and public sector total vesting rates. Public sector vesting runs at just under 85 percent of coverage and that of the the private sector just passes 60 percent. These higher vesting rates, however, mask one characteristic of many

TABLE 6: VESTING AMONG NONAGRICULTURAL WAGE AND SALARY WORKERS AND THE ERISA WORK FORCE BY AGE AND SECTOR, MAY 1983

AGE	Covered Workers (000's)	Percent Vested of Covered: Total Percent Vested of Covered	Percent Vested of Covered: Percent Entitled to Future Benefit	Percent Vested of Covered: Percent Entitled to Lump Sum Only
Nonagricultural Wage and Salary Workers				
Private Sector	36,458	51.02%	40.32%	10.69%
Less than 25	5,285	19.63	11.87	7.77
25 to 34 years	11,516	42.80	29.47	13.34
35 to 44 years	8,576	59.77	48.61	11.16
45 to 54 years	6,185	67.41	56.45	10.96
55 to 59 year	2,912	69.88	62.53	7.35
60 to 64 years	1,520	69.97	64.88	5.08
65 years and older	465	51.28	45.82	5.46
Public Sector	13,072	77.33%	57.50%	19.45%
Less than 25	1,092	45.67	28.25	17.43
25 to 34 years	3,723	73.66	46.56	27.10
35 to 44 years	3,656	82.89	61.50	21.39
45 to 54 years	2,552	83.32	68.33	14.99
55 to 59 years	1,159	84.05	72.43	11.62
60 to 64 years	664	88.07	76.56	11.51
65 years and older	227	67.17	59.25	7.92
ERISA Work Force				
Private Sector	27,550	60.11%	48.21%	11.90%
25 to 34 years	9,883	46.81	32.33	14.48
35 to 44 years	7,779	63.07	51.38	11.69
45 to 54 years	5,756	70.11	58.72	11.39
55 to 59 years	2,708	73.13	65.38	7.75
60 to 64 years	1,424	70.98	65.91	5.07
Public Sector	10,507	84.90%	64.20%	20.69%
25 to 34 years	3,184	78.08	49.72	28.36
35 to 44 years	3,261	88.22	66.30	21.92
45 to 54 years	2,365	86.39	71.36	15.03
55 to 59 years	1,082	87.81	76.29	11.52
60 to 64 years	616	91.70	79.29	12.40

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

public plans. Public pensions are often the only source of coverage for government employees. At the time of the survey, no federal workers participated in Social Security and neither did 43 percent of the state and local work force.

Vesting vs. Voluntary Contributions--A comparison of total vested benefits for private nonagricultural wage and salary earners (from table 6) with section 401(k) and IRA utilization rates (from table 7) shows the relative difference between coverage selected by the individual worker and that provided by employer pension plans. Utilization of IRAs for every age group is far below the proportion of vested benefits provided by private-sector employers. The utilization of 401(k) plans among wage and salary workers is comparable at very young and very old ages to vesting rates provided by private sector pension plans. Private plans provide considerably greater vesting for workers between twenty-five and sixty years of age than workers provide for themselves under 401(k) arrangements. Pension plan vesting rates exceed section 401(k) participation rates by over 15 percentage points for the ERISA work force between thirty-five and fifty-nine years of age.

In sum, new findings from the May 1983 EBRI/HHS CPS pension supplement show that vested benefits for employer plans exceed previously reported vesting rates by 10 to 20 percent when lump-sum distributions are added to benefit entitlement at retirement. Furthermore, comparisons with new data on voluntary participation in IRAs and 401(k) plans suggest that employer pensions provide a greater degree of coverage for workers at younger ages than they would provide for themselves.

TABLE 7: UTILIZATION OF VOLUNTARY RETIRMENT PROGRAMS AMONG PRIVATE NONAGRICULTURAL WAGE AND SALARY WORKERS BY AGE AND TYPE OF PROGRAM, MAY 1983

AGE	Section 401(k) Deferred Compensation		Individual Retirement Accounts	
	Number Offered Plan (000's)	Percent Utilization	Number of Workers (000's)	Percent Utilization
Nonagricultural Wage and Salary Workers				
Total Employees	4,822	39.31%	72,465	16.49%
less than 25	555	19.79	16,415	2.30
25 to 34 years	1,627	30.71	21,553	11.00
35 to 44 years	1,364	43.04	14,681	18.51
45 to 54 years	795	49.51	10,627	30.25
55 to 59 years	302	56.90	4,723	39.90
60 to 64 years	139	68.13	2,834	37.13
65 years and over	[a]	[a]	1,630	20.30
ERISA Work Force				
Total Employees	3,833	43.68%	42,458	21.96%
25 to 34 years	1,404	33.75	15,977	11.87
35 to 44 years	1,262	44.42	11,479	19.57
45 to 54 years	749	50.96	8,781	30.55
55 to 59 years	281	58.35	3,919	41.21
60 to 64 years	138	68.65	2,302	38.32

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

[a] Number of workers too small for rates to be calculated reliably.

THE COSTS OF THE BUSINESS CYCLE

The timing of the May 1983 EBRI/HHS CPS pension supplement provided the first opportunity to analyze the sensitivity of employer pension plans to business cycle conditions. The predecessor survey, the May 1979 DOL/SSA CPS pension supplement, was conducted during relatively buoyant economic times. According to the National Bureau for Economic Research, a 58 month economic expansion was in full swing in May 1979 as the economy surged toward its January 1980 cyclical peak just eight months later. By contrast, four years later in May 1983, the economy had just passed the November 1982 cyclical trough marking the most severe recession since World War II.

The period between the surveys was not one of strong economic growth. Real Gross National Product expanded at less than a 1 percent annual rate between the second quarter of 1979 and the second quarter of 1983. Furthermore, the Consumer Price Index increased at an average annual rate of 8.2 percent between May 1979 and May 1983. Although prices moderated considerably by 1982, the sequence of double digit inflation and severe recession would be expected to have a marked effect on every sector of the economy.

A sharp economic downturn is unlikely to lead to robust plan growth. As the economy headed toward the recessionary trough, employers would be unlikely to add to compensation costs by instituting new pension plans where none were previously available. Similarly, employees who had suffered real wage losses during the inflationary spiral would be unwilling to agree to trade current compensation for future pension benefits. While some employees might choose

tax-sheltered deferred compensation from a second plan in lieu of current salary increases, probably most would not. A priori, growth in pension coverage could not be expected between May 1979 and May 1983.

The fate of employer pensions is closely linked to the labor market. The difference in unemployment rates between the two pension supplement surveys is striking. In May 1979, the civilian unemployment rate reached its lowest point since the passage of ERISA, at a seasonally adjusted rate of 5.6 percent. By contrast, the civilian unemployment rate for May 1983, at 10.1 percent was one of the highest since before World War II. (Nationwide double digit unemployment had disappeared in this country after the Great Depression ran its course.) While the unemployment rate eased to 7.1 percent by June 1984, the EBRI/HHS May 1983 CPS pension supplement took place in mid-1983 before the beginning of the recent robust expansion.

The Aggregate Figures

Table 8 presents data on employment, pension coverage and future benefit receipt for five employment groups in May 1979 and May 1983. The figures range from the broadest definition of employment, that of all civilian employees plus the self-employed, narrowing to the ERISA work force, those employees meeting ERISA standards for plan participation. This latter group is most likely to represent workers who will have enough years of service to build an adequate employment-based pension. In table 8, the ERISA work force is gradually augmented to include those on their current job for less than a year, those working fewer than 1,000 hours, those workers under age twenty-five and over age sixty-five, and, finally, agricultural workers and the self-employed.

The data show that the coverage rate for the ERISA work force, at 70 percent, is higher than that of any of the expanded employment groups. This finding is consistent with the economics of the labor market and retirement planning. ERISA participation standards were set on the following premises: (1) the labor force attachment of many part-time employees and those with less than a year on the job may be too weak to build up meaningful pension benefits; (2) workers less than twenty-five years of age are likely to have high turnover rates as they start their careers; and (3) those over sixty-five are more likely to be retired and employed at a part-time job. Farm workers are segmented out because they tend to have low wages and transient employment. Although the noncorporate self employed may establish a Keogh plan, more than 95 percent do not, probably preferring to reinvest their funds in the growth of their own company.

The comparative findings of the May 1983 and the May 1979 surveys are thought-provoking. Employment of nonagricultural wage and salary workers (the second row on table 8 for each year) increased by 3 million employees between the 1979 and 1983. On the one hand, pension coverage did not keep up with this trend and fell by nearly 2.5 million workers primarily through a drop in coverage among employees under age twenty-five and sixty-five years and older. On the other hand, the number of workers who anticipate benefit entitlement at retirement increased by over 800,000. In other words, even though aggregate coverage among wage and salary workers fell after the 1982 recession, benefit entitlement remained strong. Nevertheless, because of the labor force expansion, coverage and vesting rates both declined regardless of increases in the number of covered and entitled workers.

Changes in the ERISA work force (the last row in table 8 for each year) between 1979 and 1983 tell a different story. Employment gains between the two years were even stronger with 4.6 million workers added to the ERISA work force. The number of covered workers also grew by over one million employees to 38 million workers. Gains in vesting surpassed one million to total 20 million workers. (And, of course, these figures omit the additional 5.5 million employees who anticipate receiving a lump-sum benefit.) Nonetheless, both coverage and vesting rates declined from their 1979 rates. By 1983, the coverage rate for the ERISA work force was 70 percent with 53 percent of covered workers of all ages anticipating future benefit receipt. In 1979 coverage for the ERISA work force had reached 74 percent, although only 51 percent of covered workers anticipated benefits at retirement.

The reasons behind these changes are not easily analyzed. The first apparent conundrum is the issue of declining coverage among nonagricultural wage and salary workers during a period of increasing employment. As table 8 shows, most of the decline in the number of covered nonagricultural workers falls among workers under twenty-five years of age and sixty-five years and older. The most perplexing question arising from the EBRI/HHS May 1983 CPS pension supplement findings is why coverage gains among the ERISA work force did not keep pace with increases in employment.

An Industrial Analysis

Part of the explanation for the fall in pension coverage rates despite expanding employment lies in the effect the recession had on employment by industry. Typically, manufacturing has been considered a high coverage

TABLE 8: EMPLOYMENT, COVERAGE AND FUTURE BENEFIT ENTITLEMENT BEFORE AND AFTER THE RECESSION, MAY 1983 AND MAY 1979

	Employment (000's and % of Employed)	Coverage (000's and % of Employed)	Future Benefit Entitlement (000's and % of Employed)
1983			
Civilian Employment (All employees & self-employed)	98,964 100.00%	51,530 52.07%	24,095 24.35%
Nonagricultural Wage and Salary Workers	88,214 100.00%	49,530 56.15%	22,217 25.19%
Nonagricultural Wage and Salary Workers age 25 to 64 only	68,252 100.00%	42,463 62.21%	20,934 30.67%
Nonagricultural Wage and Salary Workers age 25 to 64, working 1000 hours or more	61,586 100.00%	40,702 66.09%	20,476 33.25%
ERISA Work Force (age 25 to 64, working 1000 hours or more, one year of tenure or more)	54,363 100.00%	38,057 70.01%	20,027 36.84%
1979			
Civilian Employment (All employees & self-employed)	95,372 100.00%	53,445 56.04%	22,633 23.73%
Nonagricultural Wage and Salary Workers	85,181 100.00%	52,019 61.07%	21,399 25.12%
Nonagricultural Wage and Salary Workers age 25 to 64 only	63,201 100.00%	42,576 67.37%	19,836 31.39%
Nonagricultural Wage and Salary Workers age 25 to 64, working 1000 hours or more	58,009 100.00%	40,830 70.39%	19,522 33.65%
ERISA Work Force (age 25 to 64, working 1000 hours or more, one year of tenure or more)	49,736 100.00%	36,890 74.17%	18,941 38.08%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement.

industry and the service sector a low coverage industry. Industrial shift between services and manufacturing could bring about the decline in th coverage rate observed in 1983.

Tables 9 and 10 present statistics on employment and coverage for the ERIS work force for May 1979 and May 1983 and data on certain employment-relate characteristics.5/ Industries are presented in two groupings: recessiona sectors and growth sectors. In general, the recessionary sectors a comprised of the older industrial infrastructure, including manufacturin which exhibited employment losses. The growth sectors are heavily weight towards those service-related industries which experienced employment growth.

The Recessionary Sectors--The recessionary sectors include manufacturir transportation (excluding railroads),6/ construction and government. Betwe 1979 and 1983, most of these industries exhibited strong across-the-bo declines in employment or significant downturns within major componen Government is the only sector with growth in employment and coverage. It among those affected by the recession, however, since weak economic grow high inflation undoubtedly influenced the public's desire to reduce taxes government spending.

The bulk of employment in the recessionary sectors of the economy is typif by pension coverage rates of over 70 percent. Employment and coverage los were significant. Led by construction industry declines of over 11 percen points, these sectors all showed coverage rate reductions of 3 to 5 percen points. Yet in each industry the complex set of factors influencing decline in the coverage rate differed.

For instance, two primary sources of employment and coverage loss among the durable goods manufacturing industries were primary metals (representing the steel industry, for the most part) and automobiles. Coverage losses in these industries alone accounted for more than half the total losses in durables manufacturing. Yet the coverage rate for auto workers did not decline because of significant plant closings and broadly based layoffs and permanent separations. The rest of durables manufacturing provides an example of a more standard recessionary adjustment process. As many workers in large unionized firms were laid off during the 1982 recession, employment fell but coverage fell even more leading to lower coverage rates. Coverage rates today should be higher to the extent that laid-off workers were rehired as the recovery gained momentum.

While many other industries were affected by a variety of special factors, coverage rates in government were particularly depressed in comparison to the private sector. Whereas the government coverage rate fell 5.1 percentage points from 93.4 to 88.3 percent, the coverage rate for all private sector industries only slipped 3.7 percentage points from 68.6 to 64.9 percent. In particular, the federal government appears to have hired more workers outside of the Civil Service Retirement System. Although specific recessionary and growth industries, such as construction and mining, also posted large coverage rate losses in percentage terms, the government figures are particularly striking in view of pension coverage rates that traditionally have been nearly universal.

TABLE 9: CYCLICAL CHANGES IN EMPLOYMENT AND COVERAGE IN THE ERISA WORK FORCE BY INDUSTRY, MAY 1979 AND MAY 1983

INDUSTRY	Employment 1983 (000's)	Employment Change 79-83 (000's)	Coverage Change 79-83 (000's)	Percent Covered 1979	Percent Covered 1983
		Recessionary Sectors			
GOVERNMENT	11,905	750	93	93.36%	88.26%
DURABLE MANU.	8,492	(446)	(795)	84.74	79.84
Primary Metals	702	(257)	(251)	91.98	89.81
Automobiles	823	(190)	(155)	90.48	92.56
NONDURABLE MANU.	5,862	321	a	77.08	72.56
Apparel	697	(175)	(84)	46.21	45.82
Chemicals	970	(104)	(109)	93.17	91.89
TRANSPORTATION (ex-railroads)	1,454	a	(82)	72.64	68.98
CONSTRUCTION	2,130	(102)	(295)	55.75	44.56
		Growth Sectors			
PUBLIC UTILITIES	811	159	129	96.06%	93.11%
COMMUNICATIONS	1,200	277	215	92.04	88.75
MINING	660	177	117	88.73	82.72
FINANCE, INSURANCE & REAL ESTATE	3,444	581	435	71.94	72.42
PROFESSIONAL SERVICES	6,401	1,578	961	64.96	63.95
WHOLESALE TRADE	2,682	403	138	68.36	63.26
RETAIL TRADE	5,833	503	182	46.89	45.96
BUSINESS & PERSONAL SERVICES	3,184	668	225	33.87	33.83

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement.

[a] Number of workers too small to be statistically significant.

TABLE 10: CYCLICAL CHANGES IN EMPLOYMENT CHARACTERISTICS OF THE ERISA WORK FORCE BY INDUSTRY, MAY 1979 AND MAY 1983

INDUSTRY	Average Tenure with Employer 1979 (years)	Average Tenure with Employer 1983 (years)	Covered by Union Contract 1979 (percent)	Covered by Union Contract 1983 (percent)	Large Company: 500 or More Workers 1979 (percent)	Large Company: 500 or More Workers 1983 (percent)
Recessionary Sectors						
GOVERNMENT	10.54	10.59	50.05%	52.54%	a	a
DURABLE MANU.	12.12	11.42	45.18	35.49	77.32%	72.38%
Primary Metals	15.65	14.06	64.97	55.17	83.93	85.79
Automobiles	13.02	15.22	72.70	59.21	92.41	88.28
NONDURABLE MANU.	11 76	10.68	39.96	32.39	71.24	69.10
Apparel	9.21	7.90	43.03	34.83	48.93	57.31
Chemicals	13.54	12.12	32.09	22.35	85.41	88.24
TRANSPORTAION (ex-railroads)	10.89	9.57	52.00	40.72	59.74	57.94
CONSTRUCTION	9.04	8.24	42.08	31.07	26.79	24.07
Growth Sectors						
PUBLIC UTILITIES	14.95	13.96	50.34%	42.58%	85.42%	81.96%
COMMUNICATIONS	14.39	13.08	59.56	58.49	87.07	84.02
MINING	11.14	10.27	41.87	28.57	80.40	76.57
FINANCE, INSURANCE & REAL ESTATE	9.74	8.23	6.78	5.10	56.45	59.21
PROFESSIONAL SERVICES	7.63	6.87	12.22	13.04	42.66	41.81
WHOLESALE TRADE	9.60	9.45	15.38	13.82	39.97	36.99
RETAIL TRADE	8.49	7.49	16.37	14.43	42.86	45.74
BUSINESS & PERSONAL SERVICES	8.68	6.27	13.02	10.80	34.74	31.81

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement.

[a] Data on firm size not applicable to federal government employment.

Table 10 provides part of the framework for a more general analysis of these changes. Three factors found to influence coverage rates are provided by industry for 1979 and 1983. These factors consist of average on-the-job tenure, the likelihood of being included in a union contract, and the likelihood of being employed by a company employing 500 or more workers. Industries with long-tenure workers tend to have greater pension coverage both because employers want to provide benefits for long-tenure employees and because employees want to work longer at firms with pension benefits. Large firms tend to establish pensions more readily because of scale economies in personnel and asset management. Unionization is closely tied to pension protection. Benefits have been a subject of collective bargaining for many years and multiemployer agreements increase the scale economies of pension provision by banding together smaller contributions within the Taft-Hartley plan.7/

Within the recessionary sectors, declines have taken place in average tenure, unionization and the extent of employment in large firms. Shifts in unionization and firm size are probably a result of layoffs in larger more highly unionized plants. Unionized firms appear more ready to reduce costs through temporary layoffs during a recession rather than through across-the-board wage cuts. In May 1983, those laid-off workers were either collecting unemployment insurance, or, if reemployed, working at smaller less-unionized firms.

The Growth Sectors--With the exception of mining, sectors exhibiting employment gains were all within the service-providing industries. Table 8 shows that these 8 major industry groupings led to an increase in employment of 4.3 million workers between 1979 and 1982. The number of covered workers in these industries expanded by 2.4 million employees. While the service sector is typically regarded as a source of low-wage low-benefit employment, 6.1 million workers, or 25 percent of the the growth sector, are in industries with coverage rates of over 70 percent. Another 9 million workers, or 37.5 percent of this work force, are in industries with coverage rates of over 60 percent. Two patterns of change are exhibited: coverage rates for half the industries fell while those for the other half held constant.

Public utilities, communications, mining and wholesale trade exhibited declines in coverage rates despite an increase of nearly 600,000 in the number of covered workers in those industries. In the mining and public utilities, significant declines in the extent of unionization, combined with a shift toward smaller companies, may have led to the decline in the coverage rate. Nevertheless, in 1983, coverage rates for three of these four industries surpassed 80 percent even during this recessionary period.

Coverage rates held virtually constant in the financial sector (finance, insurance, and real estate), in the services (professional services and business and personal services) and in retail trade. The number of covered workers increased by a hefty 1.8 million employees. In other words, despite a variety of factors militating toward lower coverage, including the recession

and some tendency toward shorter job tenures, coverage rates did not decline. Over three-quarters of these workers were found in the financial sector and in professional services which posted coverage rates of 72 and nearly 64 percent respectively.

In summary, losses in employment and coverage stemming from a recessionary economy differed significantly according to industry. In some industries, the survey missed enumerating out-of-work covered workers who did not experience a break-in-service. By now, pension coverage has rebounded in those sectors as manufacturing workers returned to their jobs during the expansion.

Employment growth in the service-related sectors was robust in view of the recessionary conditions. In absolute numbers, millions of covered workers were added to that sector alone, taking up much of the loss suffered in manufacturing. Many service sector coverage rates were remarkably stable. Slower pension coverage growth would be expected during a recession. New employers would be less likely to provide a pension in their compensation package; old employers would be less likely to institute a pension if they did not have one. Furthermore, some argument could be made that lower cost employers, those without pensions, may find it easier to expand during a cyclical downturn.

Statistical Quirks

Unfortunately an industrial analysis does not seem to answer all the questions about what happened to pension coverage between the two surveys. A number of purely statistical issues make the data difficult to interpret and perhaps

suggest that pension coverage remained more robust than indicated by the raw percentages. While changes in coverage appear to be associated with the extent of unionization, average job tenure and firm size, the decline in coverage within the ERISA work force appears surprisingly broad in view of the relatively small compositional changes in many of those variables affecting coverage rates.

For this reason a preliminary statistical analysis was conducted for those members of the ERISA work force with valid responses for all items used in the analysis.8/ The regression included factors likely to affect pension coverage to explain the change in the coverage rate. Variables similar to those in table 9 were found to influence the extent of pension coverage as well as industry, earnings and to a lesser extent, age and geographic region of the country.

In addition to service sector growth and a contraction in manufacturing, changes took place in the distribution of age, tenure and earnings within the ERISA work force between the two survey years. This preliminary analysis indicated a downward shift in the structure of the determinants of pension coverage not related to differences in the compositional shifts in the work force. This may represent the effect of the recession on pension growth.

Imputed Responses--A further explanation for the shift in the structure of the coverage equation and the coverage rate may lie in the distribution of unreported responses in the survey. In 1980, the President's Commission on Pension Policy contracted with ICF, Inc. to allocate missing answers to the May 1979 DOL/HHS CPS pension supplement resulting from question refusals,

skipped questions and 'don't know' responses.9/

Table 11 presents statistics on employment, coverage and future benefit receipt for 1979 and 1983 comparable to those presented in table 8 but using imputations to fill in missing or incomplete data. For both years, the imputed responses for items that were not reported leads to an increase in the number of persons covered by a pension plan and in the number of persons who anticipate the receipt of future pension benefits. The survey findings using the imputed data differ for coverage and for benefit receipt because of different patterns of nonresponse for the two questions. Many more employees did not know whether they were entitled to future pension benefits.

While the number of covered workers increases for both years using the imputed variables, the increase in coverage is greater for 1983 than 1979. Analysis suggests that more high salaried workers, more employees in government, and more persons working in large firms were among those without reported responses in 1983. The reason for this shift in nonresponse has not been identified. Suffice it to say that although more wage and salary workers were covered in 1979 than in 1983, using the imputed responses, the gap in coverage fell from 2.5 million workers to under 150,000. Coverage increased to 53.9 million workers in 1983 or 61 percent of all nonagricultural employees.

Between 1979 and 1983, coverage rose by 2.6 million employees for the ERISA work force using the imputed data, compared to an increase of just over 1.1 million based on the CPS raw counts. Part of this greater coverage growth resulted from the addition of 1.8 million workers to the ERISA work force for May 1983 after imputations were made for missing responses to job tenure and

annual hours worked. This raised the proportion of employment in the ERISA work force from 55 to 57 percent. Furthermore, even though the coverage rate fell between 1979 and 1983, the decline was smaller using imputed data.

Imputations improve the status of future benefit receipt within the population even more. This results from the large fraction of the population which reported that they did not know whether they were qualified for retirement benefits. In 1979 nearly 15 percent of covered nonagricultural employees and the covered members of ERISA work force had not reported whether or not they would be entitled to a benefit at retirement. Although the figure fell to around 12 percent in 1983, suggesting greater employee information about pensions, the degree of nonresponse remained substantial.

Imputed data on future benefit receipt increased the number of workers vested for retirement benefits for both years but did not greatly alter the relationship between the two years. Concentrating on May 1983, the data indicate that the imputations increased the number of workers expecting retirement benefits by 4.7 million to a total of 28.9 million workers. Within the ERISA work force the number of workers looking forward to a pension rose by 5.3 million to 25.3 million workers. Thus 63 percent of covered workers of all ages were eligible for retirement benefits. If the 5.5 million persons in the ERISA work force who expect lump-sum benefits are added to this sum, the number of total vested workers rises to 30.8 million or 76 percent of all covered employees of all ages meeting ERISA participation standards.

TABLE 11: EMPLOYMENT, COVERAGE AND FUTURE BENEFIT ENTITLEMENT BEFORE AND AFTER THE RECESSION, MAY 1983 AND MAY 1979
(Figures include imputations for missing data)

	Employment (000's and % of Employed)	Coverage (000's and % of Employed)	Future Benefit Entitlement (000's and % of Employed)
1983			
Civilian Employment (All employees & self-employed)	98,964 100.00%	56,018 56.60%	30,850 31.17%
Nonagricultural Wage and Salary Workers	88,214 100.00%	53,932 61.14%	28,894 32.75%
Nonagricultural Wage and Salary Workers age 25 to 64 only	68,252 100.00%	45,379 66.49%	26,569 38.93%
Nonagricultural Wage and Salary Workers age 25 to 64, working 1000 hours or more	63,833 100.00%	43,723 68.50%	26,143 40.95%
ERISA Work force (age 25 to 64, working 1000 hours or more, one year of tenure or more)	56,153 100.00%	40,441 72.02%	25,326 45.10%
1979			
Civilian Employment (All employees & self-employed)	95,372 100.00%	54,374 57.01%	28,168 29.53%
Nonagricultural Wage and Salary Workers	85,181 100.00%	54,079 63.49%	28,005 32.88%
Nonagricultural Wage and Salary Workers age 25 to 64 only	63,201 100.00%	43,907 69.47%	26,009 41.15%
Nonagricultural Wage and Salary Workers age 25 to 64, working 1000 hours or more	59,217 100.00%	42,252 71.35%	25,512 43.08%
ERISA Work force (age 25 to 64, working 1000 hours or more, one year of tenure or more)	50,562 100.00%	37,803 74.77%	24,494 48.44%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement using imputations provided by ICF Inc.

THE FULL PICTURE

Evaluating changes in coverage and future benefit receipt between the May 1979 DOL/SSA CPS pension supplement and the May 1983 EBRI/HHS CPS pension supplement is a complex task. The dual effects of unfavorable economic conditions and changing patterns of survey response must be considered. On the one hand, changes in response patterns between 1979 and 1983 appear to minimize the growth in the number of covered workers and maximize the decline in the coverage rate.10/ On the other hand, even using imputed responses, pension coverage did not keep up with employment gains during a period of massive unemployment and low economic growth. This resulted in a decline in the ratio of covered workers to employment between May 1979 and May 1983.11/

Coverage rates posted in May 1983 were adversely affected by the 1982 recession in several ways. First, many workers in manufacturing were on layoff lowering the overall coverage rate. Second, this effect may have been compounded to the extent that unionized employment responded to the recession through layoffs rather than wage cuts. Third, employers without a pension plan would have been unlikely to institute one during a period of high unemployment and lagging demand. Plan growth among employers without coverage should accelerate during the current expansion to a rate more in keeping with a long run expansion path.

Even though the expansion of coverage was not proportional to the expansion of employment causing the coverage rate to edge off from 75 percent in May 1979 to 72 percent in May 1983 using imputed responses, the number of covered

workers expanded by 2.6 million workers for the ERISA work force. This expansion indicates that even during adverse conditions employer pensions have continued to provide protection for the majority of employees meeting ERISA participation standards.

Even during a recession pension plans continue to cover predominantly lower- and middle-income workers. Table 12 compares the distribution of employment, coverage and pension receipt by earnings for the ERISA work force in 1979 and 1983. Although the proportion of workers earning less than $25,000 (in 1983 dollars) increased from 74 percent in 1979 to 76 percent in 1983, the proportion of covered workers earning less than $25,000 also increased from 70 percent in 1979 to 72 percent in 1983. Furthermore, the proportion of workers expecting future retirement benefits (excluding lump-sum distributions) and earning less than $25,000 increased from 63 percent of all workers in 1979 to 67 percent in 1983. In other words, pension coverage continues to protect middle income employees even as the income distribution worsened.

Furthermore, the employer pension system did not suffer the financial difficulties experienced by the Social Security system in recent years. Between 1979 and 1982 Social Security trust fund assets fell from $24.7 billion to $22.1 billion and would have run out had interfund transfers not taken place and had the 1983 Social Security Amendments not been passed. This unfortunate situation was a direct result of sluggish economic growth with wage rates lagging prices over an extended period. By contrast, assets held by private, state and local government plans continued to grow. Accumulated holdings in these employer pension funds were $522.9 billion in 1979 and $815.8 in 1982 despite a sluggish economy. While no employed workers lost

TABLE 12: CUMULATIVE DISTRIBUTION OF EMPLOYMENT, COVERAGE AND VESTING BY EARNINGS[a] FOR THE ERISA WORK FORCE, MAY 1979 AND MAY 1983 IN 1983 DOLLARS

EARNINGS	Employment Distri-bution	Coverage Distri-bution	Benefit Entitlement Distribution
1983			
Total Employees[a] (000's)	54,363	38,058	20,027
less than $5,000	2.50%	1.05%	0.54%
less than $10,000	16.21%	9.67%	5.98%
less than $15,000	39.46%	30.70%	23.82%
less than $20,000	59.54%	52.39%	44.85%
less than $25,000	76.48%	71.98%	66.67%
less than $30,000	85.89%	82.86%	78.85%
less than $35,000	97.13%	96.48%	95.23%
Total Earnings	100.00%	100.00%	100.00%
1979			
Total Employees (000's)	49,736	36,890	18,941
less than $5,000	1.86%	0.82%	0.26%
less than $10,000	14.33%	8.74%	5.06%
less than $15,000	36.19%	28.72%	21.15%
less than $20,000	57.18%	50.59%	42.76%
less than $25,000	74.22%	69.95%	63.34%
less than $30,000	85.17%	82.57%	77.45%
less than $50,000	97.43%	97.07%	96.09%
Total Earnings	100.00%	100.00%	100.00%

SOURCE: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement and May 1979 DOL/SSA CPS pension supplement.

[a] Percentages exclude 4.9% of employees in 1979 and 4.1% of employees in 1983 whose earnings are not reported

Social Security coverage during the recession, the costs to maintaining benefit entitlement for a system that was not self-regulating at the time were borne by workers and retirees alike through the 1983 Amendments.

Conclusion

Pension coverage appears to be sensitive to business conditions, exhibiting less rapid growth during cyclical downswings. Employer pensions continued to provide coverage, however, to the vast majority of workers who are most likely to accrue meaningful benefits no matter the state of the economy. These employees vest in their pension plans as they grow older, probably accruing benefits at a faster rate than they would on their own. Furthermore, more and more women have become entitled to pensions in their own right as they enter the labor force in greater numbers. Finally, the vast majority of employees benefiting from employer pension plans continue to be middle income workers earning less than $25,000 a year. All these benefits are observed in a system with strong financial reserves enabling it to weather the worst depression in four decades.

Notes

1/ Both the 1979 and the 1983 surveys were supplements to the ongoing Current Population Survey (CPS) which is conducted monthly by the Bureau of the Census to collect national statistics on employment and unemployment. Consequently, in addition to information on pension coverage and entitlement, the survey provides valuable data on labor force status, demographics and income.

2/ In the case of the 1983 survey, the questions are (1) Does your employer contribute to a pension or retirement plan...? (2) Are you included in the employer or union sponsored plan? and (3)...Could you receive some benefits at retirement?

3/ See Sylvester J. Schieber and Patricia M. George, Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement, (Washington, DC: Employee Benefit Research Institute, 1981).

4/ The next section of this testimony discusses the effect of the recession on coverage and vesting

5/ Changes in the 1970 and 1980 Censuses mean that employment totals for the May 1979 CPS and the May 1983 CPS are not strictly comparable. In particular, the 1980 Census corrected a previous undercount, so that were the 1979 CPS benchmarked to the latest Census, the population totals would be somewhat higher. That implies that employment increases may be slightly too robust and employment decreases may be slightly underrepresented. Thus the recessionary impact on coverage may be understated. The effect of this undercount on calculated rates should be minimal.

6/ Following past survey practices, respondents were instructed to exclude Social Security and Railroad Retirement from their responses.

7/ Olivia S. Mitchell and Emily S. Andrews, "Scale Economies in Private Multi-Employer Pension Systems", Industrial and Labor Relations Review, July 1981, pp. 522-530.

8/ Final findings will be presented in Emily S. Andrews, The Changing Profile of Pensions in America, (Washington, DC: EBRI, forthcoming).

9/ More ambitious imputations for those individuals who were eligible for the survey but did not respond to any of the pension supplement questions were not included.

10/ There is also some evidence that a change in the wording of the key coverage question may have led to a decline in reported coverage. The 1983 survey substituted the phrase "contribute to a pension plan" for "have a pension plan."

11/ Other surveys of pension coverage also show coverage rates edging off since 1979. These include calculations of prior year pension coverage among employed workers from the annual March Current Population Survey and pension coverage among large and medium-sized firms from the Bureau of Labor Statistics' Level of Benefits Survey.

AUTHOR'S BIOGRAPHY

Emily S. Andrews, Ph.D.
1324 Fourth St., S.W.
Washington, D.C. 20024
(202) 554-5105

Education

Ph.D. University of Pennsylvania, Economics, 1976
A.B. Barnard College, Mathematics, 1964

Experience

- Research Associate 1983-date
  Employee Benefit Research Institute
  Senior EBRI specialist on employer pensions and Social Security. Writing book on the status of pension coverage and benefit entitlement, The Changing Profile of Pensions in America, forthcoming Fall, 1984. Research conducted using May 1983 EBRI/HHS Current Population Survey pension supplement.

- Chief, Statistical Analysis Branch 1980-1983
  Office of Research and Statistics
  Social Security Administration
  Directed interdisciplinary staff with advanced degrees in statistics, demography, psychology and law. Developed data for studies on disability, health and mortality. Advised Director on proposed and ongoing statistical and research projects.

- Director, Contract Research 1979-1980
  President's Commission on Pension Policy
  Responsible for $2 million contract research program. Directed development of three surveys on pensions and wealth. Constructed estimates of pension coverage and vesting.

- Senior Economist 1978-1979
  Pension and Welfare Benefits Program
  U.S. Department of Labor
  Designed and managed May 1979 Current Population Survey pension supplement. Conducted research on scale economies in pension management.

- Labor Economist 1974-1978
  Assistant Secretary for Policy
  U.S. Department of Labor
  Prepared cost estimates for legislation on mandatory retirement and temporary disability insurance. Initiated and planned major research conference on women in the labor force. Selected articles and edited volume published by major university press.

Previous positions include one year of university teaching and five years of economic research for non-profit institutions such as the Federal Reserve Bank of New York and the Organization for Economic Cooperation and Development.

P.O. BOX 728
CONCORD, N.C. 28025

July 23, 1984

Mr. Roderick A. DeArment

Chief Counsel

Committee on Finance

Dirksen Senate Office Building, Room SD-219

Washington, D. C. 20510

Re: Public hearings July 26, 27, 30, 1984 on subject Taxation of Employee Benefits.

Arrowood Mills of North Carolina is opposed to taxation on employee benefits. All Arrowood Mills employees, without exception, are provided medical and life insurance coverage for themselves at no cost to the employee. This benefit is provided to employees in appreciation for their efforts on behalf of the company. Many employees would not and could not avail themselves of this protection if they had to bear the expense of such a program. The purpose of this benefit would be defeated if employees were taxed for the costs incurred by the company. In this time of rising medical costs, we are happy that we can offer our employees the security of adequate coverage at no expense to them.

Private enterprises, such as Arrowood, are covering the needs of employees through their employee benefits systems. They are far superior to any government program which would replace them. Private systems should not be systematically dismantled in the name of greater tax revenues. Employee needs are there and

and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

Linda Braswell

Linda Braswell

Personnel Director

Statement

of

The Associated General Contractors of America

Presented to

Senate Finance Subcommittee

on

Taxation and Debt Management

United States Senate

On the Topic of

Fringe Benefit Taxation

July 26, 27 and 30, 1984

AGC is:

* More than 30,000 firms including 8,400 of America's leading general contracting firms responsible for the employment of 3,500,000-plus employees;

* 111 chapters nationwide;

* More than 80% of America's contract construction of commercial buildings, highways, industrial and municipal-utility facilities and of the contract construction by American firms in more than 100 countries abroad.

The Associated General Contractors of America (AGC) represents more than 30,000 firms, including 8,400 of America's leading general contracting companies which are responsible for the employment of more than 3,400,000 individuals. These member contractors perform more than 80 percent of America's contract construction of commercial buildings, highways, industrial and municipal-utilities facilities and of the contract construction performed by American firms abroad. We appreciate the opportunity to submit written testimony regarding the federal tax treatment of employer provided fringe benefits.

AGC supports the long established national policy of excluding fringe benefits from taxation at the employee level while allowing employers to deduct the cost of the benefits as a business expense. AGC also believes that the tax treatment of non-statutory fringe benefits has been more than adequately addressed in recent legislation. Rather than imposing more restrictions, traditional provisions of the Code such as Section 127 education expense deductions should be renewed. The reforms and the numerous restrictions covering statutory fringe benefits in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Tax Reform Act of 1984 (TRA) have made the present tax treatment of fringe benefits the most restrictive in modern history. Any further restrictions of employer provided fringe benefits will only serve to dismantle the efficient private sector benefit program. This system has no rival in any public sector system.

TEFRA dramatically reduced and froze the maximum contribution amounts for pension and profit sharing plans. This freeze was extended in the 1984 TRA. New "top heavy" plan rules were incorporated into the Code to limit the benefits of senior corporate officials. Severe

restrictions were placed on voluntary employee benefit trusts in the 1984 Act. Reserve account restrictions were also established for a variety of benefit categories by the 1984 Act. The 1984 Act also required extensive recordkeeping and compliance requirements for employers furnishing general fringe benefits, such as merchandise discounts and working condition fringes.

AGC continues to believe that the traditional national policy of encouraging employer provided fringe benefits should be followed. This policy correctly attempts to develop and foster a private employer benefit system. The clear acknowledgement of the superiority of a private system is well founded. The needs of a local workforce are best met at the employer level. This system allows employers to tailor their benefit programs to their employees specific needs on a local basis. For example, if the workforce is relatively young, medical insurance covering family needs may be a high priority of the employees. These needs can be easily adjusted for by the employer in designing a benefit program. This flexibility enhances the efficiency of the private sector system in a way that no public system can match. Restricting this flexibility with limitations on maximum medical insurance benefits as has been suggested recently does not serve the public interest. If two similar workforces requiring the same level of benefits are located in areas where the service costs vary significantly a cap will restrict the benefits of one group more than another. We do not believe the marginal revenue gains of the federal treasury justify the discriminatory effects on benefits and employees.

The clear superiority of the private sector delivery systems versus public systems represents revenue savings to the federal government which are far more significant than the tax revenues which could be raised by taxing fringe benefits. The present system has been extensively reformed in recent years and no further restrictions of the system are in the public interest.

Associated Insurance Service, Inc.

Harry A. Shepherd
Clyde White, Jr.
Michael R. Halloran
Joseph T. Altobellis
Norman E. Fallot
Richard E. Farrer
Linda Tichenor
Nancy Heavrin
James D. Wetterer

Louisville, Ky.
(502) 895-0503

New Albany, Ind.
(812) 944-1553

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Harry A. Shepherd
President

HAS:gc
Enclosure

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management. By Associated Insurance Service, Inc., 4010 Dupont Circle, Louisville, Kentucky 40207.

1. The private employee benefit plan system does serve a useful social and economic system.

2. Current regulations does not permit discrimination favorable to high paid employees.

3. We are a small business with only 12 employees and could not continue our employee benefits without present tax incentives.

4. Many of our people are contributing to their personal IRAs, however, all employees will have to have our pension plan in order to retire at normal retirement age.

5. Social Security benefits together with personal IRAs is not sufficient to permit our employees to retire at normal retirement age.

6. Everyone we have talked to about this is outraged that there is even talk about reducing employee benefits.

Harry A. Shepherd
President
Associated Insurance Service, Inc.

HAS:gc

ASSOCIATED
HEALTH
SYSTEMS

Evangelical Health Systems
Oak Brook, Illinois

Fairview Community
Hospitals
Minneapolis, Minnesota

Forbes Health System
Pittsburgh, Pennsylvania

Greenville Hospital
System
Greenville, South Carolina

Health Central, Inc.
Minneapolis, Minnesota

Holy Cross Health System
South Bend, Indiana

Intermountain Health
Care, Inc.
Salt Lake City, Utah

Lutheran Hospital Society
of Southern California
Los Angeles, California

Metropolitan
Hospitals, Inc.
Portland, Oregon

SamiCor
Phoenix, Arizona

Sisters of Mercy
Health Corp.
Farmington Hills, Michigan

Southeast Community
Health Services
Albuquerque, New Mexico

Chairman
Samuel J. Tibbitts

President and CEO
Merlin K. DuVal, M.D.

Statement of the Associated Health Systems

on

Tax Policies and Employee Fringe Benefits

before the

Subcommittee on Taxation and Debt Management
Senate Committee on Finance

July 26, 1984

4250 E. CAMELBACK ROAD • SUITE 120K • PHOENIX, ARIZONA 85018 • (602) 840-6700

NON-PROFIT HEALTH SYSTEMS COOPERATING TO IMPROVE HEALTH CARE

Mr. Chairman, I am Merlin K. DuVal, M. D., President and Chief Executive Officer of the Associated Health Systems, an Association of twelve multi-institutional, not-for-profit health care organizations. The members of the Association represent 178 hospitals located across the United States and employ about 100,000 individuals. We appreciate very much this opportunity to speak to some of our concerns about certain Federal tax policies relating to employee fringe benefits and their impact on the costs and financing of health care.

Mr. Chairman, we wish to focus our remarks on two of the provisions in the Federal tax code with which we have particular concerns. The first of these deals with the treatment of health insurance benefit expenditures. As you know, employer contributions made on behalf of employees for health insurance are currently excluded from employee taxable income. Because such contributions are excluded, employees have very strong incentives and preferences to seek the most extensive employment based health benefit coverages they can from their employers. This is because a dollar's worth of health insurance is worth a full dollar, while a dollar's worth of wages is worth far less, because wages are subject to Federal income and social insurance payroll taxes.

The effect of present tax policy, therefore, is to encourage the purchase of as much employment-based health insurance as possible or to press continually for more and more bene-

fits to existing coverages. This has often led to the purchase of first-dollar protection for such generally self-budgetable expenses as dental and routine vision care services. Overly-rich health plans often impose little if any cost-sharing requirements on any of the services covered, and effectively insulate patients and their families from any sense of the real costs of the health care services they use. And, because employees protected by many of these plans are not aware of the true costs of health care, they have no incentives to shop for services or for health plan coverages with an eye toward saving money.

Mr. Chairman, at a time of unprecedented Federal deficits and at a time in which Congress has expressed great concerns about the rising costs of health care in the United States, does it make any sense to provide unlimited tax subsidies to finance levels of health insurance coverage that largely remove price as a consideration by working Americans in the use of health care services? We believe, Mr. Chairman, that this Committee and the Congress must carefully consider ways to alter the present tax treatment of employment-based health benefits, if serious efforts are to be made to bring rising health spending under any reasonable kind of control. Current law only provides an unwarranted and very costly stimulus for increasing the demand for health care that must be reexamined.

Since about 85 percent of private health care coverage is provided through employment, we believe that changes in current tax policies relating to health insurance present the

Congress with meaningful opportunities to promote cost containment goals. Limits must be placed on the amount of employer-paid health insurance that employees may receive without paying some taxes on such amounts. And, if limitations on the current tax exclusion are not possible, Congress must at least consider ways to link the tax benefits of this feature of law--which fuels the demand for health services--to health plans that meet certain design requirements for tax exclusion. For example, increased cost-sharing in comprehensive employer-sponsored indemnity plans has been shown to be one of several effective methods that could be used to bring some degree of price sensitivity in spending decisions about health care.

Parenthetically, Mr. Chairman, we are also pleased that Congress has directed a study, to be submitted by April of next year, on the possible impacts that cafeteria-type fringe benefit programs, including flexible spending arrangements, could have in the containment of health care costs. We firmly believe that cafeteria arrangements offer a unique mechanism for addressing cost containment issues in ways that are acceptable both to workers and to employers.

Mr. Chairman, our other area of concern deals with the tax treatment of employer-sponsored health promotion programs. Section 531 of the recently enacted Deficit Reduction Act of 1984 revises the Code dealing with the exclusion of certain fringe benefits from gross income. First, this section makes explicit that fringe benefits which are not explicitly excluded from the

definition of gross income will be treated as income to an employee. Second, the section provides, under a special rule, for an exclusion from gross income of the value of "on premises" gyms and other athletic facilities, which are operated by an employer and the substantial use of which is by employees, their spouses and their dependent children. Thus, it appears to us that payments by employers for such health promotion programs involving facilities not on an employer's premises would be treated as taxable income to employees.

The conference agreement on the Deficit Reduction Act also provides a revised general definition of fringe benefits which are excludable from gross income, but we do not find qualifying health promotion or wellness programs named under these provisions. If our understanding of these provisions in the Deficit Reduction Act is correct, it would appear that Congress may be encouraging, through tax policies, the development of health promotion programs only among those employers large and wealthy enough to provide and staff on-premises wellness activities. In our view, this would be discriminatory and not in the public interest, because it would discourage large numbers of small businesses in the United States from offering health promotion programs to their employees. Therefore, we would propose amending the Revenue Code to make it clear that the term "gross income" does not include the value of any wellness, health promotion, or physical fitness programs financed or provided by an employer to his employees, whether or not located on the premises of the employer.

Mr. Chairman, we appreciate this opportunity to present our views on these matters.

STATEMENT OF THE

ASSOCIATED SPECIALTY CONTRACTORS

ON

TAX POLICY

INTRODUCTION

The Associated Specialty Contractors, Inc., is an "umbrella" organization of eight national associations of construction specialty contractors, whose combined membership totals about 25,000 firms. The member associations are the Mason Contractors Association of America (MCA), the Mechanical Contractors Association of America (MCAA), the National Association of Plumbing-Heating-Cooling Contractors (NAPHCC), the National Electric Contractors Association, Inc. (NECA), the National Roofing Contractors Association (NRCA), the Painting and Decorating Contractors of America (PDCA), and the Sheet Metal and Air Conditioning Contractors' National Association (SMACNA). All chapters, local and regional affiliates and contractor members of the affiliated associations are regarded as affiliates of ASC.

The segments of the industry represented by ASC affiliates, as reported in the 1977 Census of Construction Industries, consist of about 165,000 business establishments with annual sales of about $63 billion and 1,300,000 employees.

OVERVIEW

The purpose of these hearings, fringe benefit taxation, should not come as a suprise to those in the business community after reviewing the recent tax debate. Congress and the Administration are in pursuit of budget revenues and no stone will remained unturned. This is not necessarily

construction investment, and the economic health of our industry.

THE ECONOMY

Clearly the greatest problem for the construction industry is interest rates that are too high. While below the temporary peaks of the late 1970's, the average interest rates of the early 1980's have been far too high, especially in relation to the much lower inflation rate. In short, the record real interest rates inhibit investment and construction from reaching its potential. While the nation's overall construction economy has improved from the depths of the recent recession, business is still not as good as in years before the recession. It is important to remember that many large urban areas' economic conditions for our industry have yet to improve from recession conditions. With interest rates again on the rise to the levels that brought on the last recession, our industry is greatly concerned with the tax and budget policy promoted by the Congress and the President.

Briefly, the policies that have given our nation record trade deficits, record budget deficits, and record real interest rates must be changed before we find our economy again in a deep recession. The new recession will be caused by too large a federal government debt. Without trying to assess blame for the current economic dilemma, ASC agrees with economic policymakers who demand we shrink the federal

budget deficit as soon as possible. However, higher taxes are not the only answer. They can short-circuit the construction recovery just as fast as can higher interest rates. The formula should include no less than equal cuts in spending and revenue increases if the task is to succeed. It is important that business not be asked to bear a far greater burden through higher taxes as has been the case in the last two tax bills.

TAXES AND SMALL BUSINESS

Beginning in 1982, the federal government has passed at least one major tax bill each year designed solely to increase federal revenues. The merits of each bill have been questionable but in the rush to cut deficits, inadequate attention to detail is becoming all too common. That trend continued this year with a tax package that is expected to raise over $50 billion, after subtracting new spending initiatives, during the next three years. The construction industry was especially hard hit in the recent tax bill as Congress, with the President's approval, cut investment incentives for construction projects of various types. The reason for the tax hike was not that the incentives were unnecessary for stimulating investment but because the budget debt is out of control and more revenues are needed. Indeed, there is a general perception that a huge tax hike will be first on the agenda in 1985 no matter which party's candidate is successful in November.

While high interest rates and a high federal debt harm

construction, so do higher taxes resulting from short-sighted tax legislation. We disagree with those who are suggesting far higher taxes on construction and business in order to balance the budget. It can't be done on the back of small business. One member of Congress recently remarked that business is the goose that lays the golden eggs--jobs, profits, higher wages, and improved living standards, etc.--and that Congress has been all too interested in the fruits of business and not in the health of business. Without reasonable care it is too easy, and politically expedient, to hike taxes on construction and small business without making the tough decision to cut spending and inequitable income tax breaks.

Separately or in combination, the elimination or restriction of tax incentives to rehabilitation or new construction will hurt the construction industry just as it appears that the recovery is forthcoming. Recent Congressional testimony has documented that the sectoral distribution of capital spending has been concentrated in equipment rather than investment in structures. The seriousness of the unbalanced capital formation picture will only be worsened by removing the incentives currently available. While ASC clearly understands the Congress' desire to raise tax revenues, it seems inequitable to reduce or eliminate construction tax incentives during a time of fragile recovery and rising interest rates. Large tax hikes on the construction industry will not improve the construction economy or general economic growth. The fragile

economic recovery in the construction industry needs continued investment incentives and lower interest rates. The Committee should recognize the importance of the contribution of the construction industry and the tax incentives that are needed for its growth. The Congress and the President should promote construction incentives to stimulate investment and jobs. Higher taxes on small business are simply counterproductive to the expressed goals of a strong economy.

FRINGE BENEFITS

Specifically, the Associated Specialty Contractors (ASC) opposes taxes on fringe benefits. As our statement has outlined, taxing small business cannot be viewed in isolated terms. When depreciation incentives, industrial development bonds, leasing incentives, and other tax incentives are cut or eliminated, it hurts the construction economy. To add to the small business tax burden with fringe benefits taxes further strains the fragile business recovery.

If Congress believes that there is wide-spread abuse in the area of fringe benefits, it should say so, identify specific abuses, and make a recommendations to correct them. But to tax fringe benefits, many of which are part of the social contract between the nation, employers and employees. solely to compensate for over-spending or unwise tax policy is unfair. ASC welcomes a Congressional or Administrative review of fringe benefit packages to seek out potential abuses. If found these abuses should be acted upon by

Congress with support from the business community. But, again, we emphasize there cannot be abuses in defense contracts or other areas of the budget that are ignored if employer-employee fringe benefits are offered up for revenue purposes.

In a recently released report from its Small Business Administration Office of Advocacy, researchers examined the extent of coverage, characteristics, administrative practices and costs of pension and health care plans in small businesses. The SBA sudy found that benefits coverage is far less extensive for employees in small business than for workers in large businesses. Only 30 percent of employees in small firms (10 employees or less) have both health and pension benefits. In firms larger than 2,500 employees, over 95 percent of workers have both types of coverage. Insufficient profitability, benefit plan complexity, and plan costs all inhibit small business from providing or expanding benefit packages. Taxing the benefits will only cause businesses to reduce the number, extent, and variety of fringe benefit packages.

Most of our members assemble their benefit packages based on collective bargaining agreements. While these agreements vary from contract to contract, region to region, there are some similarities. The types of benefits range from job training assistance, education benefits, health and welfare benefits. In some areas travel benefits, journeyman upgrading, and scholarship funds are available. No matter what the benefit, it is very probable that if the benefits

are taxed, employees acting alone or through their union representatives will seek greater benefits or higher wages to offset losses to income. The management-labor agreement may be subject to challenges as workers try to maintain an agreed upon wage and benefit package. Clearly, taxing fringe benefits will be an added financial burden on small business as labor passes on the costs of tax increases through to the business. The consumer then pays for the tax if the small business is able to pass on the added cost. Otherwise, it will become another burden for the business to absorb through reduced economic activity or lower profitability. Whatever is the result, cutting federal spending is preferable to starting a chain reaction of inflationary pressure through the overburdened small business community.

CONCLUSION

ASC believes that the driving force to tax fringe benefits and to increase taxes on a whole range of other small business activities is the desire to increase revenues. Taxing fringe benefits is not a proposal to increase the equity of the tax code or correct abuses but is simply a move to raise taxes to offset federal deficit spending. Therefore, until the case can be made that spending has been cut in an equitable manner in defense, social services, and the many other areas within the federal budget, we consider it premature to endorse further tax increases on small business and their employees. We feel that most policymakers would agree that

ngress has a long way to go in income tax reform and spending cuts before new tax hikes are proposed in employee personal benefit packages.

The Associated Specialty Contractors and its members have been vocal participants in the current tax debate. We offer our assistance and counsel as the revenue picture is examined by Congress in its attempts to reduce the budget deficits. However, to view tax proposals piecemeal, separate from budget cuts, rather than in a comprehensive budgetary manner, will produce results counterproductive to tax code reform and small business equity.

The Association of Urban Universities
1346 Connecticut Avenue, N.W. Suite 228 Washington, D.C. 20036 202/387-2130

July 27, 1984

Hon. Bob Packwood, Chairman
Subcommittee on Tax and Debt Management
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senator Packwood:

Father William Byron, President of the Catholic University of America will be testifying before your Subcommittee this week in support of the reinstatement of Sec. 127 of the Internal Revenue Code. We will not impose upon your already crowded schedule by requesting time to reiterate what Father Byron will probably say more eloquently.

The Association of Urban Universities, representing the nation's public and private urban universities, supports his testimony with respect to Sec. 127 with enthusiasm. While there is probably not a college or university in America which does not include in its student body some men and women who would not be there if it were not for assistance from their employer, and for the incentive afforded by Sec. 127, we do take some pride in the thought that the urban universities and community colleges are probably the principal learning sites for employer-assisted students. And the focus of our concern are those members of the work force whose employers are foresighted enough to realize that a better-trained worker is an asset to business, and to the nation.

We believe that a continuation of the tax policy which encourages workers to become more productive, is a more direct assault on inflation than the short-sighted "saving" of $25 million which is the most the repeal of Sec. 127 can mean to the Treasury.

Given the legislative history of Sec. 127, and its wholly unanticipated disappearance in the recent conference on the Deficit Reduction Act, we most strongly urge you to reinstate Sec. 127 as an investment in the future, and to do so in a timely manner so as to avoid an unexpected and inequitable tax burden falling on the workers who have counted on Sec. 127 in good faith.

Sincerely,

Jim Harrison
President

February, 1984

The Members of the Association of Urban Universities (and **Board of Directors**):

Brooklyn College, **Robert Hess**, President
Chicago State University, **George E. Ayers**, President
Cleveland State University, **Walter Waetjen**, President
Columbia College, **Mike Alexandroff**, President
University of the District of Columbia, **Robert L. Green**, President
George Mason University, **George Johnson**, President
Georgetown University, **Rev. Timothy S. Healy**, S. J., President
Georgia State University, **Kathleen Crouch**, Vice-President
University of Houston System, **Charles Bishop**, President
University of Illinois at Chicago, **Donald Langenberg**, Chancellor
University of Massachusetts/Boston, **Robert Corrigan**, Chancellor
University of Minnesota, **C. Peter Magrath**, President
University of Missouri/ Kansas City, **George Russell**, Chancellor
University of Missouri/ St. Louis, **Arnold Grobman**, Chancellor
University of Nebraska/Omaha, **Del Weber**, Chancellor
New Jersey Institute of Technology, **Saul Fenster**, President
University of New Orleans, **Cooper Mackin**, Acting Chancellor
City College of New York, **Bernard Harleston**, President
City University of New York, **Joseph S. Murphy**, Chancellor
New York Institute of Technology, **Matthew Schure**, President
New York University, **John Brademas**, President
Northeastern University, **Kenneth G. Ryder**, President
Northeastern Illinois University, **Ronald Williams**, President
Old Dominion University, **Alfred B. Rollins, Jr.**, President
Pace University, **Edward J. Mortola**, President
St. Peter's College, **Rev. Edward Glynn**, S.J., President
Temple University, **Peter Liacouras**, President
Texas Southern University, **Leonard Spearman**, President
Tulane University, **Eamon Kelly**, President
University of Tulsa, **J. Paschal Twyman**, President

Associate Board Members:
Representing the National Association of Independent Colleges and Universities--**Daniel Perlman**, President, Suffolk University

Representing the National Association for Equal Opportunity in Higher Education--**Andrew Billingsley**, President, Morgan State University

Board Members Emeriti:
Dr. Werner Baum
Dr. Carlo Golino
Dr. James G. Miller
Dr. Donald Riddle

Dundalk Community College

July 24, 1984

Office of the President

The Honorable Bob Packwood
United States Senate
Washington, D.C. 20510

Dear Senator Packwood:

My understanding is that in late July the committee will be holding hearings on the Tuition Assistance Programs that represent special provisions of the new tax legislation that was passed by Congress recently. It is my further understanding that "in person" testimony will not be made, but that interested parties can submit written testimony directly to the committee. Attached for your review is my testimony which addresses matters of critical concern to not only Dundalk Community College but to community colleges nationally.

Should you have any questions or concerns or would want to hear from me directly, please contact me at your earliest convenience.

Very truly yours,

Philip R. Day, Jr.
President

Attachment

PRD:jbe

CC: Dr. Frank Mensel
Mr. James Mahoney
Dr. John E. Ravekes
Dr. John M. Kingsmore
Senator Mathias
Senator Sarbanes
Congressman Long

7200 Sollers Point Road • Dundalk, Maryland 21222-4692 • 301-282-6700

39-707 O - 85 - 16

Testimony of

Philip R. Day, Jr.

Presented to the

United States Senate Finance Committee

on the Topic of

Tuition Assistance Program

DRAFT

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS PHILIP R. DAY, JR. I AM THE PRESIDENT OF DUNDALK COMMUNITY COLLEGE WHICH IS LOCATED IN THE SOUTHEASTERN PART OF BALTIMORE COUNTY.

I AM PLEASED TO APPEAR BEFORE YOU TO DISCUSS THE MATTER OF TUITION ASSISTANCE PROVIDED BY THE EMPLOYERS TO THEIR EMPLOYEES.

MR. CHAIRMAN, WE READ WITH GREAT ANXIETY THE NEW TAX LEGISLATION THAT WAS PASSED BY THE CONGRESS LATE LAST MONTH. THE PROVISION OF TAXING OF TUITION BENEFITS THAT THE EMPLOYEES RECEIVE FROM THEIR EMPLOYERS IS DETRIMENTAL TO HIGHER EDUCATION.

THE UNITED STATES OF AMERICA IS KNOWN FOR ITS WORKER EDUCATION. FEDERAL GOVERNMENT HAS PLAYED A PIVOTAL ROLE IN THE EXPANSION OF EDUCATIONAL OPPORTUNITIES TO THE ADULT LEARNER THROUGH THE PASSAGE OF LIFELONG LEARNING LEGISLATION IN THE EDUCATION AMENDMENT OF 1976. THE RECENTLY COMPLETED STUDY "PUT AMERICA BACK TO WORK PROJECT" SPONSORED BY THE AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES (AACJC) EMPHASIZES THE NEED FOR A CONCERTED NATIONAL EFFORT TO INSURE THAT WELL TRAINED WORKFORCE IS AVAILABLE TO OPERATE THE BUSINESSES AND INDUSTRIES OF THE FUTURE. WITHOUT THIS EFFORT, THE ROAD TO A HEALTHIER, MORE PRODUCTIVE, COMPETITIVE AND TECHNOLOGICALLY UP-TO-DATE PRIVATE SECTOR WILL BE FAR MORE PAINFUL (ELLISON, 1983).

RAPIDLY CHANGING TECHNOLOGY, PLANT SHUTDOWNS, JOB DISLOCATION, AND SKILL OBSOLESCENCE ARE FORCING THE ADULT WORKERS TO THE CLASSROOMS FOR PERIODIC RETRAINING AND EDUCATION.

MANY WORKERS HAVE BEEN AVAILING THEMSELVES OF THIS RETRAINING AND EDUCATION THROUGH THE PROVISION OF EMPLOYER-PAID TAX-FREE TUITION.

THERE ARE SEVERAL BENEFITS IN THE TUITION AID PROVISION FOR THE EMPLOYER, AND WORKER, AS WELL AS THE EDUCATIONAL INSTITUTION. THE TUITION AID PROGRAM FOR THE EMPLOYER CAN BE A VERY IMPORTANT TOOL IN THE HUMAN RESOURCE DEVELOPMENT. IT PROVIDES AN OPPORTUNITY TO UPDATE THE WORKER'S SKILLS AND KNOWLEDGE. IT ATTRACTS POTENTIAL WORKERS TO THE COMPANY. THE TUITION AID PROGRAM IMPROVES THE CHANCES OF THE WORKER TO REMAIN IN THE WORKFORCE OF THAT COMPANY.

THE TUITION AID PROGRAM FOR THE WORKER CAN FULFILL THE EDUCATIONAL AND CAREER GOALS OF THE WORKER. IT PROVIDES AN OPPORTUNITY FOR UPWARD MOBILITY. IT ALLOWS THE WORKER TO LEARN THE STATE-OF-THE-ART. IN ADDITION, IT BUILDS THE WORKER'S CONFIDENCE.

THE TUITION AID PROGRAM FOR THE EDUCATIONAL INSTITUTION IMPROVES ENROLLMENTS. IT OFFERS CUSTOMIZED TRAINING PROGRAMS AT THE WORK-SITE AS WELL AS ON CAMPUS. IT ESTABLISHES CLOSE COMMUNICATION AND MUTUAL BENEFICIAL RELATIONSHIPS BETWEEN EMPLOYERS, WORKERS, AND THE INSTITUTION.

ACCORDING TO THE NATIONAL INSTITUTE FOR WORK AND LEARNING, MORE THAN 80 PERCENT OF THE COMPANIES WITH 500 OR MORE EMPLOYEES HAVE TUITION AID PROGRAMS. THE N.I.W.L. ESTIMATES BETWEEN 17 AND 25 MILLION WORKERS ARE ELIGIBLE FOR THE TUITION AID PROGRAM.

The American Society for Training and Development estimates about 7 million employees are receiving tuition assistance from their employers.

A recent telephone survey of employers of Baltimore County revealed about 50 percent offered a Tuition Assistance Plan. A survey of our own students in 1983 showed 47 percent of the employers offered a Tuition Assistance Plan.

Dundalk Community College is situated in the industrial hub of the skilled trades and heavy industries. Corporations like Bethlehem Steel, General Motors, Lever Brothers, Armco Steel, Continental Can, and other major industries dot the landscape of this southeastern sector of Metropolitan Baltimore. Nearly a quarter million workers are employed in these and other industries. A majority of workers are blue collar workers who receive some kind of tuition assistance from their employers. According to the 1980 survey, 50 percent of the credit students in community, junior, and technical colleges were over the traditional college ages of 18 to 21 (AACJC, 1981). At Dundalk Community College, 75 percent belong to this age group. The average age of the student body at the College is 33 years, and more than 80 percent are part-timers who hold a job in one of the industries.

The above tax provision will particularly hurt people who are trying to advance in their careers. The impact of this legislation is even greater on women and minorities. Metropolitan community colleges like Dundalk are the primary sites

FOR RETRAINING WORKERS. THE TAX BENEFITS HAD PROVIDED MANY WORKERS WITH A WAY TO GAIN NEW SKILLS AND ENHANCE THEIR CONTINUED EMPLOYABILITY, AND REPRESENT A HUMAN "ASSET" TO THEIR RESPECTIVE COMPANIES. THESE WORKERS WHO WOULD BENEFIT MOST FROM LEARNING NEW SKILLS WILL NOT BE ABLE TO AFFORD THE EXTRA COST OF ENROLLING IN RETRAINING COURSES.

THE RECENTLY PASSED LEGISLATION REQUIRES EMPLOYEES TO PAY TAXES ON THE TUITION PAYMENTS MADE BY THEIR EMPLOYERS UNLESS THE COURSES ARE STRICTLY JOB-RELATED. THIS WILL RESULT IN FEWER ADULT WORKERS' ENROLLMENT.

ACCORDING TO THE AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT, ABOUT 55 PERCENT OF THE WORKERS WHO TAKE ADVANTAGE OF THE TUITION ASSISTANCE PLAN EARN LESS THAN $25,000 PER YEAR. THESE WORKERS CAN NOT AFFORD TO PAY TAXES ON AN EXTRA $1,800 TO $2,000 FOR THE COURSES THEY HAVE TAKEN. FURTHER, IT WILL BE A GREAT BURDEN UPON THEM TO PROVE TO THE INTERNAL REVENUE SERVICE THAT THE COURSES THEY HAD TAKEN WERE REALLY "JOB-RELATED". EMPLOYERS, ON THE OTHER HAND, FOR ECONOMIC OR OTHER REASONS MIGHT RESTRICT THE WORKERS FROM GETTING THE NEEDED TRAINING.

MR. CHAIRMAN, WE BELIEVE THE FEDERAL GOVERNMENT HAS THE RESPONSIBILITY FOR EXPANDING THE EDUCATIONAL OPPORTUNITIES TO THE ADULT LEARNER. EXTENSION OF TAX-FREE STATUS OF EMPLOYER-PAID TUITION REGARDLESS OF THE TYPES OF COURSES EMPLOYEES TAKE WOULD GO A LONG WAY IN MEETING THIS GOAL.

MR. CHAIRMAN, I SINCERELY THANK YOU FOR THE OPPORTUNITY TO TESTIFY BEFORE THIS COMMITTEE.

Atlantic Planning Consultants, Inc.
An Affiliate of Huston Associates
1960 WILL ROSS COURT • CHAMBLEE, GEORGIA 30341 • (404) 458-8511

July 25, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: J. Robert Conley, President
Atlantic Planning Consultants, Inc.

For the past 14 years my company has provided administrative services to Private Employee Benefit Plans for approximately 40 small commercial banks and many of their commercial customers in Georgia.

I understand that certain questions regarding the need and/or advisability of continuing the currently available tax incentives for these types of plans are being investigated by Senator Packwood and the Senate Finance Committee.

In my opinion, the reduction or elimination of the existing tax incentives would result in the immediate termination of the majority of qualified Plans which we service.

The small bank or business which accepts the social responsibility of attempting to help its employees provide a measure of future security by transferring a portion of its earnings to an employee retirement Trust should certainly be encouraged to do so, as is done by the existing regulations.

Discontinuing private employer funded Plans could result in significant pressure from (former) plan participants to expand the already troubled Social Security system to replace the lost benefits to some degree.

Analysis of IRA accounts show that the majority have been funded with money which was already in, or going to be deposited into savings plans

anyway - that little "new" retirement funds have been created.

If the private sector is to continue to attempt to provide retirement benefits to supplement the Social Security and individually funded programs, the existing tax incentives are vital to the effort.

STATEMENT OF ATLANTIC RICHFIELD COMPANY IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS

JULY 26, 27, and 30, 1984.

Atlantic Richfield Company is a diversified resource company and is among the twelve largest industrial corporations in the United States. It sponsors a comprehensive package of employee benefits that provides a "safety net" of protection against economic hazards to all employees. Most of the employee benefit plans that are offered are made possible only because of enabling provisions in the Internal Revenue Code. These tax favored provisions allow employees, particularly lower and middle income employees, to build upon the basic level of protection afforded by Social Security. We believe very strongly that tax preferences for welfare benefit plans and pension plans are critical in achieving broad employee participation in these programs. Our own experience with our Section 401(k) CODA Plan provides ample evidence of this. The abolition of these preferences for employees will very likely significantly reduce coverage in effect for those who are at lower income levels. In addition, since defined benefit and defined contribution plans constitute the major source of savings for middle and lower income employees, the restriction or elimination of these plans will have a significant detrimental effect on the already low rate of personal savings.

Atlantic Richfield Company's benefit package offers employees welfare benefit plans that protect them against current economic hazards, retirement income programs that build upon Social Security benefits, and capital accumulation programs that promote long term employee saving. Exhibit I shows the major plans and the number of employees covered by them.

The Company maintains benefit programs in order to provide financial protection and security (alleviating problems which could reduce productivity in the employees) and to maintain our competitive ability to attract and retain high quality employees. Our retirement program is designed to maintain a retirement standard of living that approximates a middle income employee's pre-retirement standard of living. The employee savings program has two parts - a savings plan and a capital accumulation

(401(k)) plan. The former has a degree of flexibility that allows employees to withdraw their accumulated savings in order to meet financial emergencies. As an example, there were a large number of withdrawals by employees living in parts of Texas after a particularly damaging tornado hit that state. The latter plan, as its name implies, is a long term plan which encourages employees to save for their retirement; withdrawals by active employees are discouraged by a restrictive withdrawal provision in the plan.

In the face of massive federal deficits, Congress is legitimately concerned whether tax benefited employee benefits are really necessary. The majority of employees and employers would answer in the affirmative. The United States, like most economically advanced countries, long ago decided that its citizens were entitled to some degree of protection against one or more of a large variety of social hazards. Hence, the creation of a near universal Social Security System whose benefits are based on presumptive need and which provides a minimum floor of protection against economic risks. This system is of necessity biased in favor of social adequacy; the balance between social adequacy and individual equity has been maintained largely by programs sponsored by employers. Indeed, Congress has encouraged the creation of such private programs by enacting, at various times, provisions in the Internal Revenue Code which provide stimulus for the development of private programs. The result has been the creation, in the private sector, of a fairly comprehensive "Safety Net" of protection to employees against economic hazards. In the absence of this safety net, there would no doubt be extreme pressure on the government to provide similar benefits. This raises the question of which is more preferable, for employers to meet these social needs or to provide them via a direct expenditure by the government? The Atlantic Richfield Company believes that the first alternative is preferable since, by and large, the private sector has fulfilled its mandate in a creditable manner. The Senate Finance Committee's Subcommittee on Taxation and Debt Management will no doubt receive testimony from organizations such as EBRI that will support this assertion as to the performance of the private sector in the aggregate.

Atlantic Richfield can only share with the Committee the experience of our Company in providing employee benefits to our employees. Accordingly, we attach several exhibits to this letter giving statistical information about ARCO's employee benefit programs.

The very success of the private sector in providing for the economic security of workers has been responsible for the inflation in employee benefit costs. At Atlantic Richfield Company, this escalation of costs is a matter of great concern to us. To deal with this problem, we have done the following:

(1) Taken a very conservative position on the creation of new employee benefit programs

(2) Designed our Capital Accumulation Program with an economic incentive for employees to participate, causing the generation of significant long term personal savings to be available only at termination or retirement. Over time, this will allow the Company to phase out our supplementary retirement program. (This plan grants periodic ad hoc retirement supplements to compensate retirees for the erosion of retirement income due to inflation)

(3) Redesigned our medical plan to contain the rate of increase in health care costs. Specifically:

- Employees have a choice between a "first dollar" plan or a comprehensive plan that requires a greater amount of cost sharing on the part of the employee. The former costs the employee substantially more in monthly contributions. Employees are also offered a wide selection of Health Maintenance Organizations (HMO's).
- The company is active in employer coalitions in Los Angeles, Philadelphia and Houston. A Company executive chaired the Los Angeles Coalition in 1981-1982.
- We have initiated a pilot program of utilization review in California.

- We have a sophisticated claims data base system that pinpoints areas of over-utilization.

In conclusion, we believe that despite deficiencies in the system, no drastic overhaul is needed at this time. Any major change, on balance, would likely be more disruptive than beneficial. This would occur, for example if Congress either made employer contributions to employee benefit plans currently taxable to employees, or denied deductions to the employer for the cost of these programs. In the latter event, even the most generous employer would have little choice but to curtail or eliminate most employee benefit programs. If Congress believes that there are abuses of the tax system by employers, then this should be dealt with administratively rather than by legislative fiat. Congress should proceed with extreme caution when modifying social goals that have been embodied in the tax system, particularly when the only viable alternative is substantially increased federal expenditure levels. The success of both the public and private sector in meeting the economic security needs of Americans should be a matter of pride to all of us. The abolition of employee benefit programs, that will result if Congress repeals tax preferences, will undoubtedly create greater demands on public social programs and place sudden demands on the limited resources of lower and middle income workers.

EXHIBIT I

Plan Name	Participant* Count	Eligibility	Benefit
Atlantic Richfield Retirement Plan	43,000	Employees with Six months Company Service	1.15% of final average salary (3 yrs) up to Social Security Tax Base + 1.5% of the excess
Capital Accumulation Plan (CAP)	25,000	Immediate	1-10% Salary deferral
Savings Plan	23,000	Employees with Six months Company Service and elective deferral of at least 1% to CAP	Company match of $2 for every $1 of employee saving to a maxi-maximum of 4% of salary.
PAYSOP	36,000	Immediate for all full time employees	1/2 percent of payroll
Medical and Dental	36,000**	Immediate for all employees	Medical & Dental Expenses; requires cost sharing by employee.
Life/Survivor Income	36,000	Immediate for All Employees	One times salary
Short Term Disability	36,000	Immediate for All Employees	Depends upon length of employment.
Long Term Disability	28,000	Immediate for All Employees who are full time and under 69½	Represented employees receive 50% of pre disability salary. Others receive 60%, with required contributions for employees earning in excess of $40,000

* Rounded to nearest thousand
** Does not include approximately 40,000 dependents who are also covered

EXHIBIT II

Retirement Program

The Company sponsors a number of defined benefit and defined contribution plans. The former are designed to replace, in conjunction, with Social Security, a significant percentage of employees pre-retirement income. The latter are primarily Capital Accumulation Plans, except for the Sec. 401(k) plan which is designed to provide retirement income supplements. Our experience shows that moderate income employees are not inclined to save on their own, an experience similar to other such employees across the nation. Accordingly, we designed a Savings Plan that is linked to the Sec 401(k) plan, whereby employees cannot get the benefit of the Company's matching contribution to the Savings plan unless they also contribute to the Sec. 401(k) plan. This approach is apparently successful, as almost 90% of eligible employees participate in the Savings program. In addition, the Company has a supplemental retirement program that replaces a portion of retirees income that has been lost due to inflation.

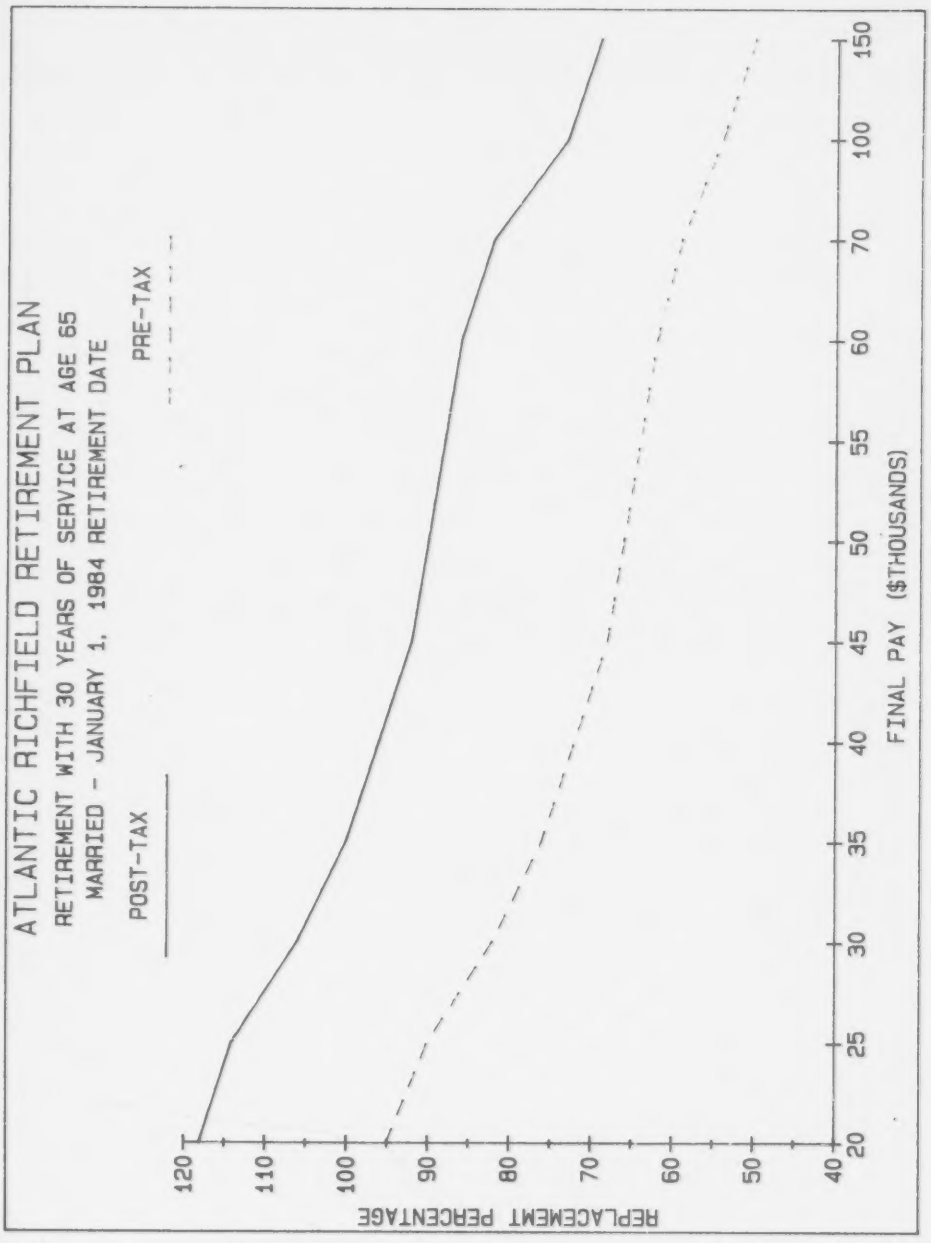
Attached are examples of replacement ratios for the Atlantic Richfield Retirement Plan (ARRP), which is the largest defined benefit plan in the Atlantic Richfield controlled group. It should be noted that the benefit formula is such that low to middle income employees **benefit proportionately more** than high income employees.

ATLANTIC RICHFIELD RETIREMENT PLAN
PRE-TAX AND POST-TAX REPLACEMENT RATIOS
JANUARY 1, 1984 RETIREMENT DATE WITH 30 YEARS OF SERVICE
MARRIED

Final Pay	AFC 8.5% Salary Assumption	Estimated Federal & Local Taxes	Pre-Retirement Disposable Income	Social Security Benefit	ARRP Benefit	Total Benefit	Pre-Tax Benefit As a % of Final Pay	Post Retirement Estimated Federal & Local Taxes	Total Post-Tax Retirement Income	Total Post-Tax Income as % of Pre-Retirement Disposable
$ 25,000.00	$ 23,092.62	$ 5,572.27	$ 19,427.73	$13,140.00	$9,246.44	$ 22,386.44	89.55%	$ 253.89	$22,132.56	113.92%
$ 50,000.00	46,185.24	15,699.84	34,300.16	13,212.00	19,638.12	$ 32,850.12	65.70%	2,103.87	30,746.25	89.64%
$ 70,000.00	64,659.33	25,568.64	44,431.36	13,212.00	27,951.46	41,163.46	58.80%	4,684.21	36,479.26	82.10%
$100,000.00	92,370.48	41,895.00	58,105.00	13,212.00	40,421.48	53,633.48	53.63%	11,071.34	42,562.14	73.25%
$150,000.00	138,555.71	72,207.20	77,792.80	13,212.00	61,204.84	74,416.84	49.61%	20,960.69	53,456.15	68.72%

ATLANTIC RICHFIELD RETIREMENT PLAN
PRE-TAX AND POST-TAX REPLACEMENT RATIOS
JANUARY 1, 1984 RETIREMENT DATE WITH 30 YEARS OF SERVICE
SINGLE

Final Pay	AFC 8.5% Salary Assumption	Estimated Federal & Local Taxes	Pre-Retirement Disposable Income	Social Security Benefit	ARRP Benefit	Total Benefit	Pre-Tax Benefit As a % of Final Pay	Post Retirement Estimated Federal & Local Taxes	Total Post-Tax Retirement Income	Total Post-Tax Income as % of Pre-Retirement Disposable
$ 25,000.00	$ 23,092.62	$ 6,994.60	$ 18,005.40	$ 8,760.00	$9,246.44	$ 18,006.44	72.03%	$ 808.71	$17,197.74	95.51%
$ 50,000.00	46,185.24	19,395.36	30,604.64	8,808.00	19,638.12	28,446.12	56.89%	3,259.71	25,186.41	82.30%
$ 70,000.00	64,659.33	30,632.85	39,367.15	8,808.00	27,951.46	36,759.46	52.51%	7,792.32	28,967.14	73.58%
$100,000.00	92,370.48	49,039.85	50,960.15	8,808.00	40,421.48	49,229.48	49.23%	13,594.63	35,634.85	69.93%
$150,000.00	138,555.71	80,541.15	69,458.85	8,808.00	61,204.84	70,012.84	46.68%	25,129.05	44,883.78	64.62%


ATLANTIC RICHFIELD RETIREMENT PLAN
RETIREMENT WITH 30 YEARS OF SERVICE AT AGE 65
MARRIED - JANUARY 1, 1984 RETIREMENT DATE
POST-TAX
PRE-TAX
REPLACEMENT PERCENTAGE
120
110
100
90
80
70
60
50
40
20
25
30
35
40
45
50
55
60
70
100
150
FINAL PAY ($THOUSANDS)

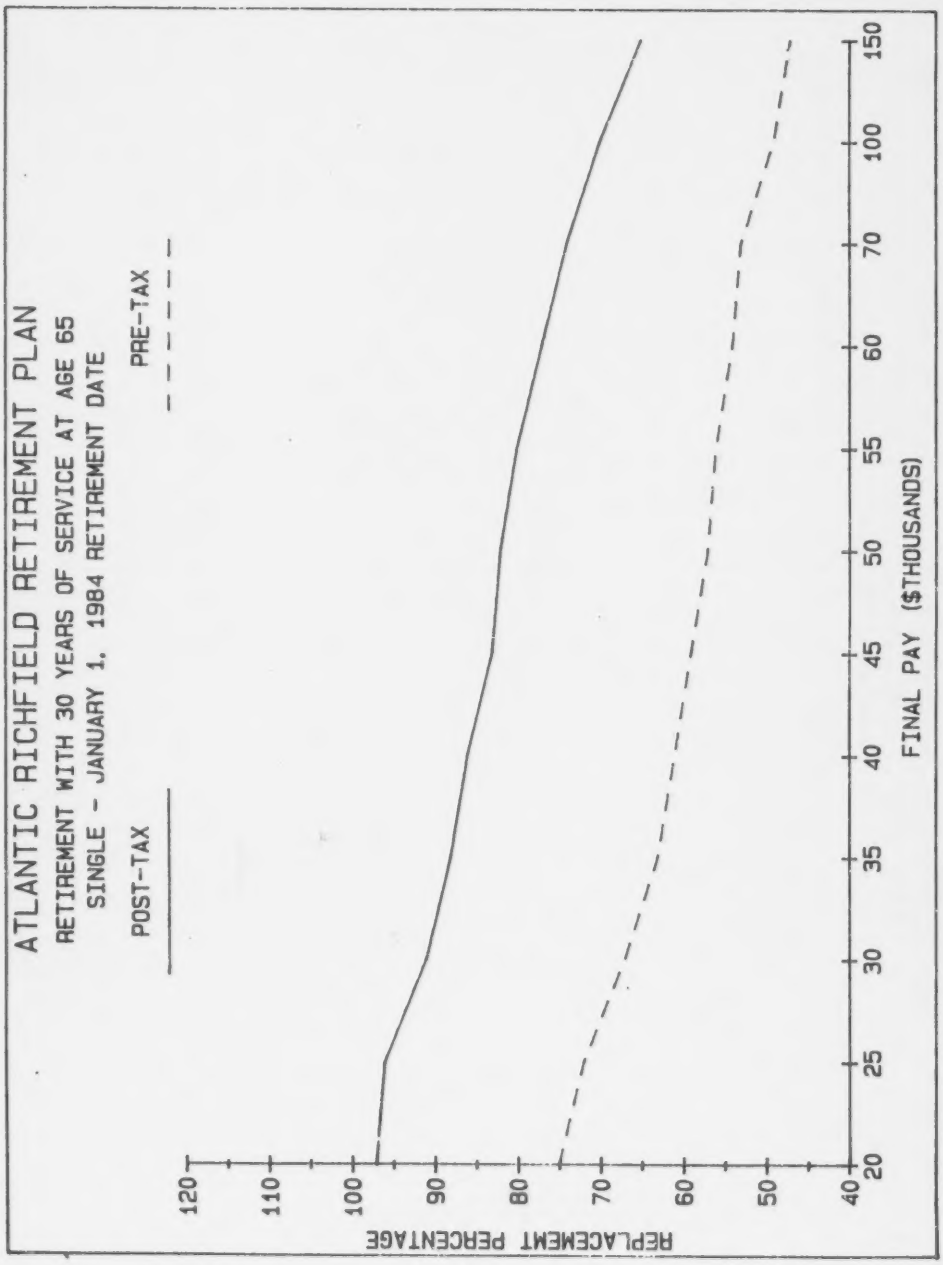

ATLANTIC RICHFIELD RETIREMENT PLAN
RETIREMENT WITH 30 YEARS OF SERVICE AT AGE 65
SINGLE - JANUARY 1, 1984 RETIREMENT DATE
POST-TAX
PRE-TAX
REPLACEMENT PERCENTAGE
120
110
100
90
80
70
60
50
40
20
25
30
35
40
45
50
55
60
70
100
150
FINAL PAY ($THOUSANDS)

EXHIBIT III

Long Term Disability

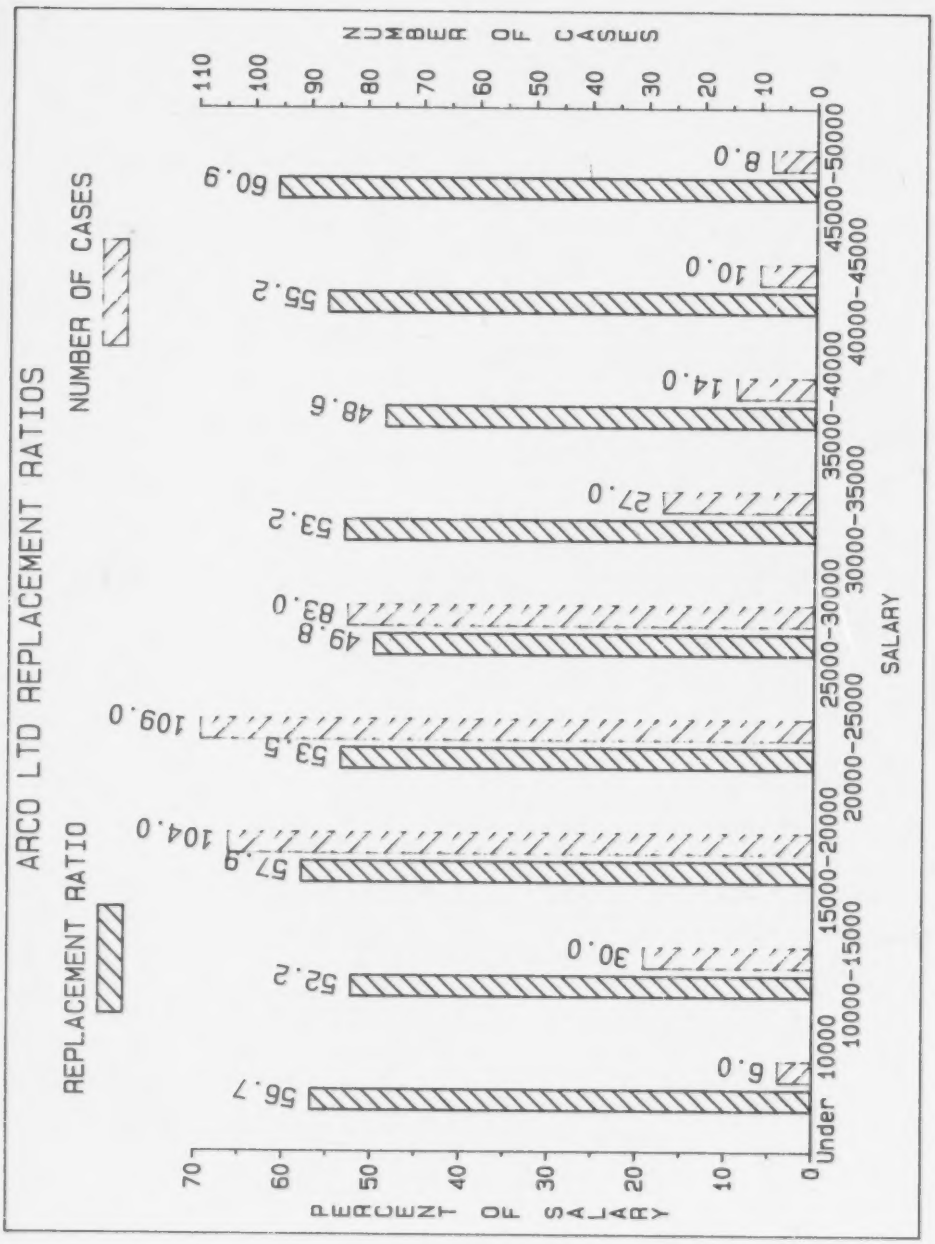
Atlantic Richfield designed the long-term disability program to replace a portion of income lost when an employee becomes permanently and totally disabled. In addition to receiving monthly payments from the Long Term Disability (LTD) plan, disabled employees continue their medical coverage on the same terms as when they were actively employed.

The attached graph shows that **91% of those receiving benefits are those employees who at the time of their disablement were earning less than $40,000.** Note that under the terms of the plan, active employees earning more than $40,000 must contribute towards the cost of the plan. In return, their benefits from the plan are higher.

ARCO LTD Replacement Ratios by Salary

AVERAGE REPLACEMENT RATIO

Final Salary	Ratio of LTD Plus Retirement Benefit	Social Security Only	Total	Number of LTD Cases
Under 10000	35.8%	20.9%	56.7%	6
10000 - 15000	34.7%	17.5%	52.2%	30
15000 - 20000	35.3%	22.6%	57.9%	104
20000 - 25000	34.6%	18.9%	53.5%	109
25000 - 30000	33.9%	15.9%	49.8%	83
30000 - 35000	42.1%	11.1%	53.2%	27
35000 - 40000	37.4%	11.2%	48.6%	14
40000 - 45000	49.0%	6.2%	55.2%	10
45000 - 50000	53.9%	7.0%	60.9%	8
50000 - 55000	58.4%	2.9%	61.3%	5
55000 - 60000	56.6%	7.5%	64.1%	6
60000 - 65000	55.5%	5.8%	61.3%	4
65000 - 70000	0.0%	0.0%	0.0%	0
70000 - 75000	50.5%	7.5%	58.0%	3
75000 - 80000	0.0%	0.0%	0.0%	0
80000 - 85000	60.0%	0.0%	60.0%	1
85000 - 90000	0.0%	0.0%	0.0%	0
90000 & Over	0.0%	0.0%	0.0%	0
		Total		409


ARCO LTD REPLACEMENT RATIOS
REPLACEMENT RATIO
NUMBER OF CASES
PERCENT OF SALARY
NUMBER OF CASES
SALARY
Under 10000
10000-15000
15000-20000
20000-25000
25000-30000
30000-35000
35000-40000
40000-45000
45000-50000
56.7
6.0
52.2
30.0
57.9
104.0
53.5
109.0
49.8
83.0
53.2
27.0
48.6
14.0
55.2
10.0
60.9
8.0

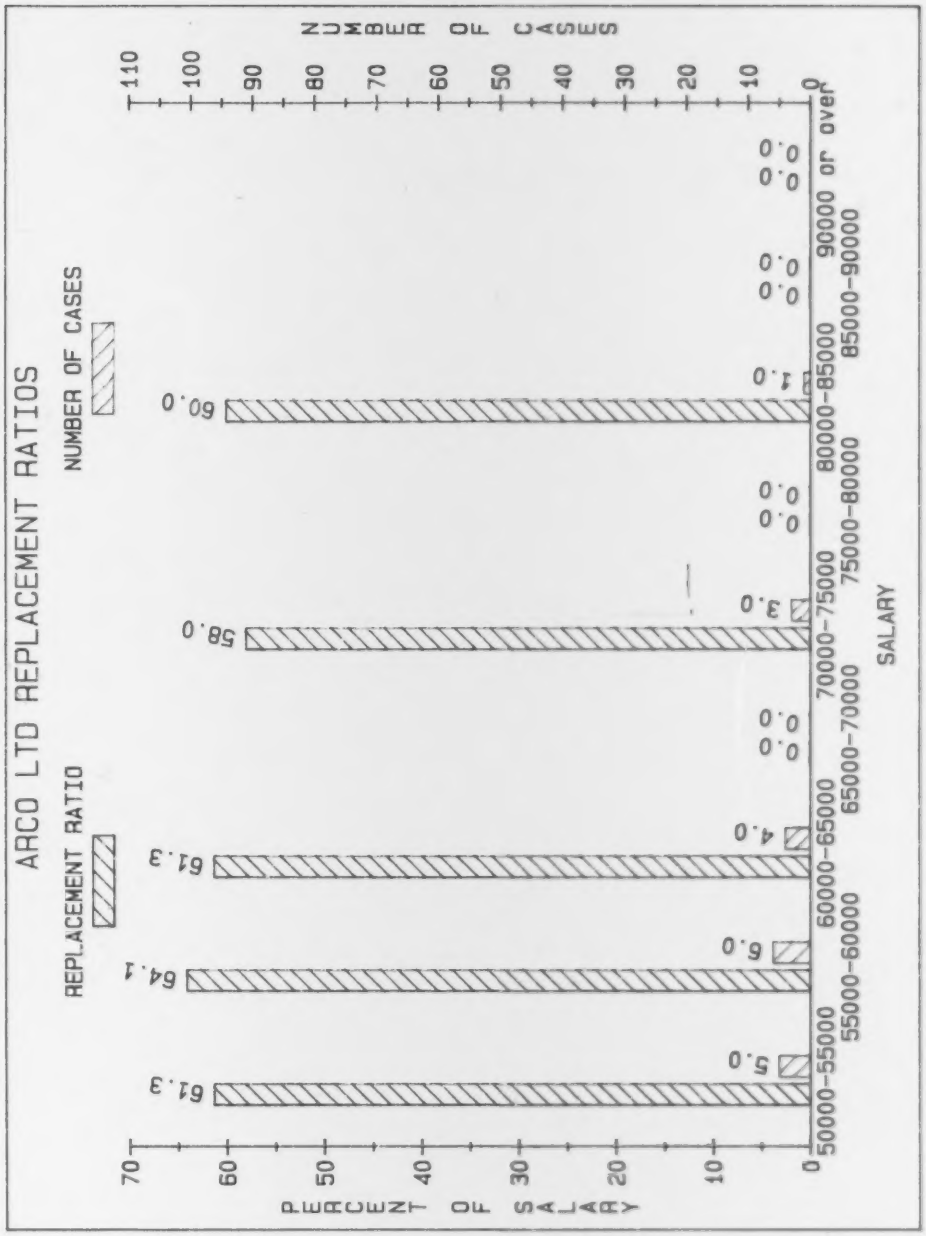

ARCO LTD REPLACEMENT RATIOS
REPLACEMENT RATIO
NUMBER OF CASES
PERCENT OF SALARY
NUMBER OF CASES
SALARY
50000-55000
55000-60000
60000-65000
65000-70000
70000-75000
75000-80000
80000-85000
85000-90000
90000 or over
61.3
64.1
61.3
58.0
60.0
5.0
6.0
4.0
3.0
1.0
0.0

EXHIBIT IV

Health Care

The Company sponsors medical plans covering all active employees and those retirees aged 55-65. Retirees age 65 and above are covered by plans that supplement Medicare. The plans are designed to provide both a comprehensive level of medical care and catastrophic protection. The latter is set at a $1,000,000 limit, which, although never reached, is not unrealistic. A few months ago, an employee incurred medical bills in excess of $800,000.

The attached graph shows company contributions to the medical plan as a percentage of employees salary. Here too, the benefits go primarily to **rank and file employees.**

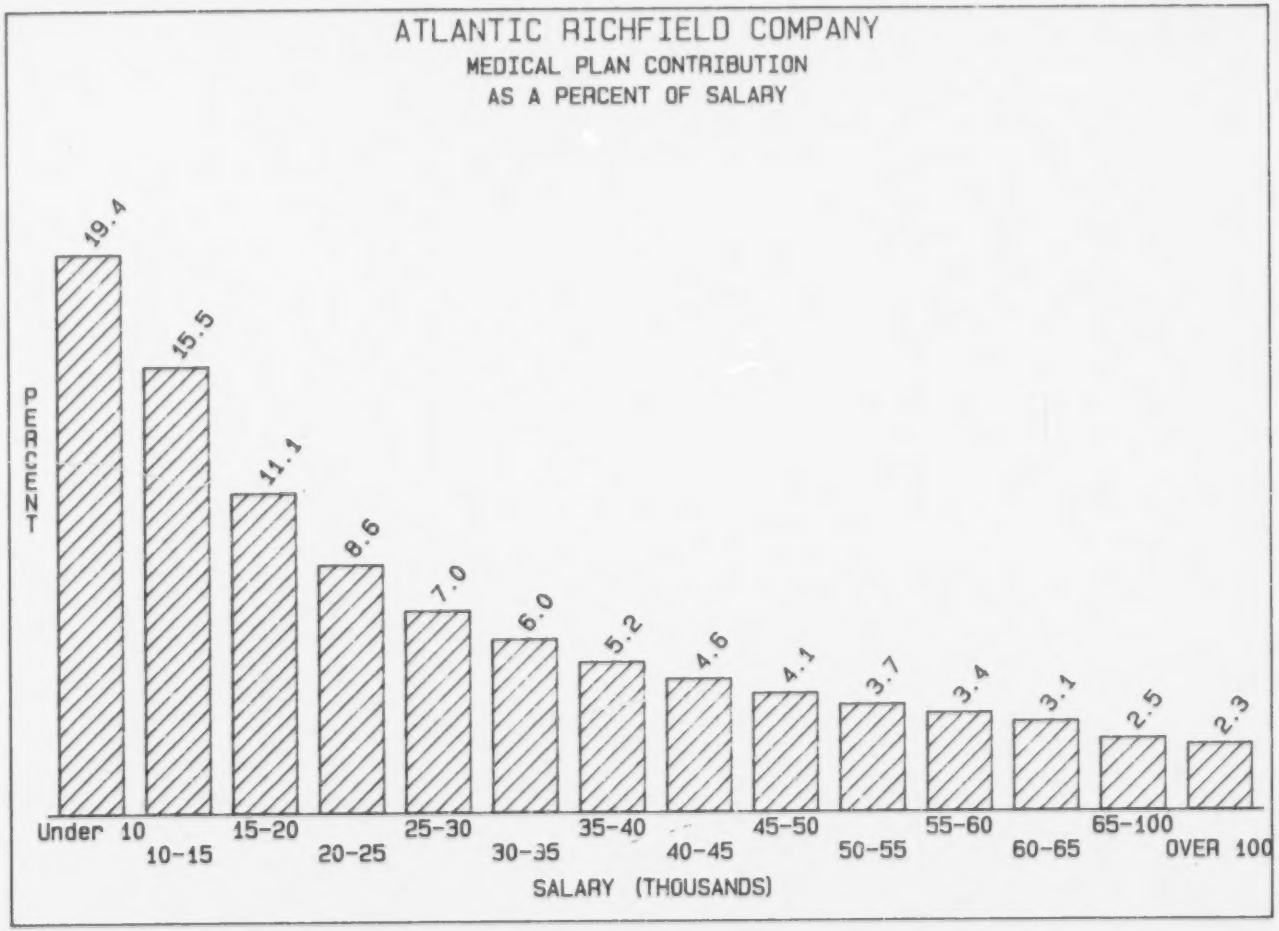

ATLANTIC RICHFIELD COMPANY
MEDICAL PLAN CONTRIBUTION
AS A PERCENT OF SALARY
PERCENT
19.4
15.5
11.1
8.6
7.0
6.0
5.2
4.6
4.1
3.7
3.4
3.1
2.5
2.3
Under 10
10-15
15-20
20-25
25-30
30-35
35-40
40-45
45-50
50-55
55-60
60-65
65-100
OVER 100
SALARY (THOUSANDS)

EXHIBIT V

Death Benefits

The Company generally provides active employees with life insurance protection equal to their annual salary. This is given to them at no cost. Additional amounts of life insurance can be purchased by employees at their option.

The table below shows that 64% of all settlements for the past two years were for those employees whose salary at death was $40,000 or less.

PERCENT OF ARCO DEATH CLAIMS UNDER OPTION A (ONE TIMES SALARY)

Final Salary	Total Number of Death Claims (All Options)	Number of Claims with Option A	Percent
Under 10000	0	0	0.0%
10000 - 15000	1	1	100.0%
15000 - 20000	7	5	71.4%
20000 - 25000	16	6	37.5%
25000 - 30000	30	6	20.0%
30000 - 35000	20	8	40.0%
35000 - 40000	7	2	28.6%
40000 - 45000	9	2	22.2%
45000 - 50000	7	3	42.9%
50000 - 55000	4	0	0.0%
55000 - 60000	8	0	0.0%
60000 - 65000	4	0	0.0%
65000 - 70000	6	0	0.0%
70000 - 75000	3	0	0.0%
75000 - 80000	1	0	0.0%
80000 - 85000	1	0	0.0%
85000 - 90000	0	0	0.0%
90000 - 95000	1	0	0.0%
95000 - 100000	0	0	0.0%
Over 100000	2	0	0.0%
Total	127	33	

Autobody Craftsman Association
1904 NE 45th, Portland, Oregon 97213
(503) 284-7782 1-800-452-7245
Larry Portwood Executive Director

August 2, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD, 219 Dirksen
Senate Office Bldg.
Washington, D.C. 20510

Re: USS Committee on Finance, Sub Committee on Taxation
and Debt Management, (fringe benefits)

Dear Mr. DeArment:

Please enter this statement in the printed record of the above hearing.

Our Trade Association represents many small employers in the Western States.

A common problem of these employers and their employees is the ability to obtain Health Insurance at an affordable premium.

One of the benefits that our Trade Association provides is the ability for our members to obtain Health Insurance through the private sector at a reasonable cost.

We can do this in part because there is incentive for the employer to provide these benefits and because we have access to a private delivery system.

We urge members of the Congress to preserve the private delivery system in Health care by pursuing a taxation policy that will allow incentive for private enterprise to meet this need of delivering Health care.

The real test is how is the consumers need best fulfilled. We feel private enterprise can do the job best.

Sincerely,

Larry Portwood
Executive Director

tb

cc: S.P.B.A.
Hon. Robert Packwood

AWBREY OILFIELD CONSTRUCTION
ROUTE 3, BOX 7 - EDINBURG, TEXAS 78539
PHONE: (512) 381-5637

JEFF AWBREY
GENERAL MANAGER

August 10, 1984

Mr. Roderick A. DeArment

Chief Counsel

Committee on Finance

Dirksen Senate Office Building, Room SD-219

Washington, DC 20510

RE: Taxation of Employee Benefits
Hearing dates of July 26, 27, and 30, 1984

Dear Mr. DeArment:

Our company benefits are not just principally offered to the highly paid, because both medical and life insurance are provided for all employees whether management, office staff, truck drivers, operators, welders, mechanics, or laborers. Even though our company is such that it is mainly staffed with men, they do not receive greater or better benefits than the female employees.

Our company is relatively a new company, so therefore, we have not offered a pension plan at this time. However, if in the future we do offer a pension plan, we would feel a cost of living raise should be included.

Our workers would suffer if employer sponsored benefits did not exist, because the majority of our employees would not be able to carry medical benefits on their own. Therefore, denying them adequate medical coverage when needed would not be just. Also, the absence of life insurance would cause them worry as to the family's welfare and well-being in the event of their death.

Our employee benefits are essential to our workers economic security. Due to the economic depression in this particular area, our workers are dependant upon benefits to compensate and to raise their standards of living.

We feel the needs of our employees are being met through our benefits and we hope to continue to be able to compensate them in the future.

Sincerely,

M. Thomas Awbrey

MTA:prs

Badische Corporation

P. O. Drawer D
Williamsburg, Virginia 23187

August 10, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

SUBMITTED AS PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27, AND 30 BY THE SUBCOMMITTEE ON TAXATION AND DEBT OF THE SENATE FINANCE COMMITTEE

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statements to the included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the Subcommittee on Taxation and Debt Management of the Senate Finance Committee.

Thank you for your assistance.

Sincerely,

A. R. Trevarthen
V.P. Human Resources
on behalf of Badische Corporation

ART:cls
Enclosures

BADISCHE CORPORATION PLANS

Badische Corporation employs approximately 4,000 employes in the U. S. and makes monthly payments from its three U. S. pension plans to approximately 270 retirees and survivors. Our active employees participate in various company offered and/or company paid benefit plans, as listed below:

Medical Care	Life Insurance
Voluntary Group Accident	Travel Accident
Dental	Salary Continuation
Accident and Sickness	Long Term Disability
Tuition Reimbursement	Savings Plan
Severance Pay	Pension

Benefits in these plans are handled consistently among employees and do not discriminate in favor of highly compensated employees for eligibility or participation purposes. Women are covered in the same fashion as men.

Badische takes an active role in reducing health care costs by actively participating in medical/business coalitions, by making significant plan changes to encourage Badische Corporation employees to be better health care consumers, and by implementing a companywide wellness program. Badische has a philosophy of encouraging employee participation in its group medical and life insurance programs. Employees make payroll contributions to help defray the cost of such insurance programs.

The pension plans are not top-heavy. Every fulltime, active employee is covered under a pension plan. In the past, Badische has adjusted pension benefits to reflect a need for increases due to post-retirement inflation.

THE NEED FOR PRIVATE PLANS

The economic security provided by private welfare and pension plans relates primarily to the need for continuing income in the event of old age, death or disability, and the need to meet expenses associated with health care. Many of these benefits are funded in advance, thus creating a high degree of security.

Conventional wisdom holds that these economic security needs are met by the so-called three-legged stool -- government benefits, employer-provided benefits, and personal savings. In reality, government and employer provided benefits are more significant. Although personal savings are important for many reasons, they provide a much smaller part of total benefit protection than the other two sources.

Our national policy should recognize this, and should encourage the growth of private welfare and pension plan coverage. The economic security needs of individuals will not diminish if their private plan coverage is reduced or eliminated. To the extent such coverage does disappear, it will create pressures for government benefits to expand and fill the gap. Should the government not fill the gap, the real losers from restrictive legislation may well be the "average" employees who are eliminated from coverage and who have no adequate means of replacement.

SUMMARY

Badische Corporation supports the need for continued incentives for companies to sponsor private pension and welfare plans.

In our judgment:

* There is a need for voluntary, private employee benefit plans. Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. They provide meaningful economic security for more than 150 million individuals, and do so in a cost efficient manner.

* National policy for these plans should not be driven by tax policy alone; other social and economic objectives need to be recognized, even though they sometimes conflict with revenue considerations.

* Discriminatory practices, which occur only in a small percentage of plans, should be eliminated in ways that do not adversely affect those plans that do not discriminate.

* Private plans should be permitted to integrate with Social Security benefits in such a manner that total benefits from both sources, public and private, are distributed in an acceptable and nondiscriminatory way.

* National policy on benefits should be stable, should permit the establishment and maintenance of plans without the need for constant modification and should avoid burdensome administrative requirements.

Badische strongly believes in the need for the private system to provide employee benefits and in the system's integrity. We at Badische are committed to supporting its continued growth and expansion.

If private enterprise is not encouraged to meet its needs, government must. And we believe, in the latter event, the ultimate price to our nation will be greater.

Connie Baker
1640 Foxhaven Drive Apt. 9
Richmond, Kentucky 40475

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment,

Consistent with your requirements, I am submitting this letter and the attached statement to be included as a part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Sincerely,

Connie Baker.

Connie Baker

August 9, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management. By Connie Baker

Privately funded employee benefit plans do serve a useful purpose to more than highly paid employers. I am married and involved in an occupation that is an occupation of the heart rather than an occupation for high monetary compensation. As a medical assistant, a fairly new occupation, I make a yearly salary that is basic in supporting my family. Knowing that my employer is able to make a contribution to a retirement plan for me is an essential fringe benefit. Unable to make a contribution to any other retirement account on my own, this benefit gives me security.

This benefit is an essential employee benefit that is provided by my employer. The Social Security system needs all the help and support that it can receive. I can not safely see that there will be a Social Security System when I reach the age of retirement. Please reconsider your thoughts on this matter as it is a benefit that should not be deleted.

The Town of Balkan
ROUTE 1, BOX 16
CHISHOLM, MN. 55719
TELEPHONE (218) 254-3967

August 6, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Rooom 219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment,

The Town Board of the Town of Balkan would like to go on record as being in support of the current tax favored treatment of employee pension and welfare benefits.

We hope that you will consider our opposition to taxing benefits at the upcoming lesgislative sessions.

Sincerely,

Donald H. Sever

Donald H. Sever, Chairman
Town Board

DHS/jf

RAYMOND O. BALLARD

WALTER E. BALLARD

BALLARD BROTHERS ELECTRIC COMPANY

COMMERCIAL & RESIDENTIAL WIRING

1396 BROADWAY

MACON, GEORGIA 31206

PHONE 741-1105

July 25, 1984

TO WHOM IT MAY CONCERN:

Public Hearing on Employees Fringe Benefits
Hearing dates- July 26,27, 30, 1984
Regarding Taxation of Employee Benefits.

We are opposed to taxation of employee benefits as we provide a group life and hospitalization plan for our employees, with company paying 55% and employee paying 45%, approx. All participating employees have same benefits regardless of pay or sex, and we feel this act would put an unnecessary burden on our employees.

Sincerely,

Raymond O. Ballard

RAYMOND O. BALLARD, PARTNER
ROB/rb

Ball Corporation
345 South High Street, Muncie, Indiana 47302 (317) 747-6100

Duane E. Emerson
Vice President
Administration
(317) 747-6488

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

I am submitting the following comments as a statement for inclusion in the record of Senate Finance Committee hearings held July 26, 27 and 30 on the taxation of employee benefits.

Please oppose any efforts to tax additional employee benefits. Some educational assistance is now taxed and discussion has begun on taxing additional benefits. I believe it is a dangerous trend.

One of the great strengths of the American social system is the provision of a variety of social services by the private sector in an economically efficient manner. Health care, educational assistance, life insurance, day care and retirement programs are provided for individuals by their employers, greatly reducing the pressure on the public sector to provide these services.

This is not an accident of history. It has resulted, in part, from carefully developed federal tax policy. Employers have been encouraged to provide these benefits, which are judged valuable to the society, by

allowing the costs to be deducted as business expense while not taxing the benefits.

Despite the great success of these programs the system is now coming under attack. While several reasons for this attack have been put forward, it is difficult to find one that withstands careful analysis.

One theory is that untaxed benefits unfairly benefit the rich. Hardly; often untaxed benefits are identical or nearly so for all employees. Therefore, the percentage of total compensation paid as untaxed benefits is higher for employees at the lower end of the pay scale. Many provisions are already in place to ensure that benefit programs do not discriminate against lower paid employees.

A second theory is that untaxed benefits skew economic decision-making. Exactly; they skew the content of employer-employee agreements toward including more socially valued benefits. Educational assistance helps to balance the shortage of candidates in a number of highly skilled positions and the surplus of candidates in lower skilled areas. Pensions produce the dual benefit of increasing savings and relieving pressure on the social security system. Health care provides medical services for employees and families while relieving local welfare departments from the burden of assisting citizens whose savings would be inadequate to survive a major illness. All of these untaxed benefits are provided in some form to many citizens through tax dollars.

Another theory is that taxing benefits would be a relatively painless way of raising revenue. Unrealistic; no action, not even a general tax increase could possibly have a negative impact on more constituencies. Companies, who have worked hard to develop quality programs, and unions, who have bargained hard for employee benefits, will both be outraged. The National Employee Benefits Institute reports that over 150 million Americans are participants and beneficiaries of employee benefit programs.

A final theory is that taxing of benefits could be done in an administratively efficient manner. Doubtful; because it would require an entirely new set of records and would add variables to the computing of income for each employee. As the number of variables increases, so does the likelihood of an increased administrative burden.

The taxing of all employee benefits fails fundamental tax tests. It is not fair. It does not serve social policy. It is not politically palatable. It is not efficient. Surely there must be better alternatives.

Thank you for the opportunity to offer comments on this important issue.

Sincerely,

D. E. Emerson
Vice President, Administration
Ball Corporation

THE BALZER COMPANIES, INC.

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, DC 20510

Reference: Taxation of Employee Benefits (Reference: July 26, 27, and 30, 1984 hearings)

Dear Mr. DeArment:

I believe it would be a gross error to shift the burden of furnishing employee benefits from private enterprise programs to government.

Specifically, any shift of such responsibility will undoubtedly increase the overall cost as government must receive its share of tax dollars for administration and the set-up of added bureaucracy. In addition, I could see any program following the path of our questionable Social Security program-maximum cost for minimum benefit.

We have a benefit and profit sharing plan that benefits all employees whoever they are. There is little doubt that this beneficial program helps and that changes of responsibility to government by taxing such programs will only serve to kill them and directly effect the employee.

Very truly yours,

al Balzer

Alvin L. Balzer

ALB/pv

10650 S. WILCREST, SUITE 100 • HOUSTON, TEXAS 77099 • (713) 495-9980

B

Banner Life Insurance Company
1701 Research Boulevard
Rockville, Maryland 20850
(301) 279-4800

August 21, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Hearings on Employee Benefits
July 26, 27, 30, 1984

Dear Mr. DeArment:

Banner Life Insurance Company wishes to take this opportunity to present its testimony for inclusion in the record of the hearings on employee benefits legislation held July 26, 27 and 30, 1984.

The Company has enclosed the required copies.

Sincerely,

Kathie P. Freck
Law Assistant
Legal Department

Enclosure

KPF/dg

A member of the worldwide Legal & General Group
with assets over $11 billion, founded in 1836.

STATEMENT TO THE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT
HEARINGS OF July 26, 27, 30, 1984

Over the last 40 years, the private sector of American employers has built a broad-based, comprehensive system of pension and welfare benefits for employees.

These benefits include profit sharing, pension plans, educational assistance, long-term disability, life insurance, and health and dental insurance. Some employers also provide day care for children, cafeteria plans, and many other varied benefits.

Banner Life Insurance Company ("Banner") presently provides:

- life insurance
- health and dental insurance
- pension plan
- profit sharing
- long- and short-term disability plans

These benefits are available to all employees, low and highly-paid. There is no differentiation in income levels for any of the benefits. Life insurance, for example, is a flat rate—twice base annual salary - not on a graded scale and is at no cost to the employee. Health and dental coverages are available at the same cost to any employee who wishes to participate, from the President of the Company to a mail clerk. Over 60% of the Company's health insurance benefits are used by low-to middle-income workers.

Banner's employees are divided 50% to 50% men to women approximately. Women use 60% of the benefits paid each year, men 40%.

Banner attempts to adjust pension benefits for inflation.

It is the Company's contention that, if employer-sponsored benefit programs do not exist or are materially lessened due to the new taxation, the workers, and especially the low-income workers, will suffer tremendous set-backs.

Taxing the benefits as compensation, and not permitting the Company any deductions, will most assuredly hinder the Company's ability to provide a broad range of benefits to its employees. If the range of benefits is curtailed, employees would have to purchase the specific coverages as individuals, at far greater cost. Lower- and mid-range employees would not be able to afford as comprehensive a plan of protection as that to which they were accustomed.

Many employees, especially lower-salary employees, would not be able to provide for retirement and the retirement years without employer-provided pension plans, profit-sharing, stock purchase and such tax-free or tax-deferred programs.

The loss of life and health insurance benefits as provided by the employer would impose a severe economic strain on our low-income and retired personnel - as some are uninsurable (i.e. long term disabilities, over age 65, handicapped) and would find it extremely difficult to obtain coverage anywhere.

Banner Life Insurance Company vehemently urges the Committee on Finance Subcommittee on Taxation and Debt Management to reconsider before making a decision that will drastically alter the lifestyles of millions of low to middle income workers.

Respectfully submitted,

Edward Bové
Staff Attorney

Barbara A. Esau
Director of Personnel

Kathie P. Freck
Law Assistant

Matthew F. McGuire
General Counsel

J. Carroll Thomas
Senior Vice President

Barclays American

201 South Tryon Street P.O. Box 31488 Charlotte, North Carolina 28231 704/372-0060

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

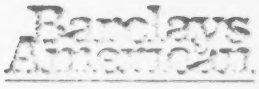
Thank you for your assistance.

Sincerely,

J. Carroll Thomas

/kpb

Attachment



"Private Enterprises has build effective and efficient arrangements covering the needs of employees and their dependents through the Employee Benefit System. I feel it is far superior to any government program(s) which might replace such a system. Therefore, I feel that the tax incentive which currently supports the benefit system should remain in place and should not be tampered with in any fashion.

The Employee Benefit System that has been built by Private Enterprises consistently covers all employee groups indiscriminately. Therefore, all classes of workers would suffer if employer sponsored benefits did not exist. Removing tax incentives would go a long way in destroying our current Employee Benefit System."

Bath Iron Works Corporation A Congoleum Company
700 WASHINGTON STREET, BATH, MAINE 04530 • (207) 443-3311

WILLIAM E. HAGGETT
President
and
Chief Executive Officer

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Sir:

Employee Benefits Legislation

The Bath Iron Works Corporation (Bath, Brunswick and Portland, Maine) provides our employees and their dependents a very comprehensive and competitive benefit package. All of our full-time production employees and their dependents receive this package at no cost to them. These benefits include:

- Hospitalization - pays the full cost of a semiprivate room anywhere for up to 121 days;
- Surgical and Diagnostic - pays 100% of the usual, customary and reasonable charge of the physician;
- Major Medical - after $100 deductible pays 80% of all eligible expenses including office visits, prescriptions, therapy, etc.;
- Group Term Life Insurance - pays a death benefit of $14,000. Coverage maintained following retirement with 10% reduction of original face value each anniversary to a minimum benefit of $3,000;
- Weekly Indemnity - pays a weekly benefit of $145 for up to 27 weeks covering accident or illness occurring outside the workplace;
- Business Travel Accident - pays a death benefit equal to four times base earnings. Benefits also available for dismemberment and permanent total disability;

Mr. Roderick A. DeArment August 13, 1984

. Retirement Plan - Defined Benefit Pension Plan. Benefit based on years of credited service times negotiated multiplier. Ten-year vesting. Early retirement available at age 60 with 15 years of continuous service. Benefit reduced by .005% each month early. Total disability benefit upon ten years service. Survivors benefit upon ten years service, and pays 75% of benefit accrued to date of death;

- Our retirement plans plus Social Security virtually guarantee benefits between 60% and 75% of pre-retirement income.

Being the largest private employer in the State of Maine, with 7,000-plus employees, we have always regarded our total benefits program as being very significant to our employees. Consequently, we, from time to time, take steps to improve, modify and expand the types of benefit programs that are offered our employees. For example, we will propose this year a new pension plan that includes an employee contribution savings plan.

The above outlines and describes benefits for our production employees. All other groups--clerical represented, technical represented and salaried employees--receive benefits comparable to the above with other additives and/or variations.

In conclusion, we feel that any further tax policy will prove to be a significant disincentive in both the development and expansion of our employee benefits.

As a very concerned employer, we urge the Committee to resist any further overhaul of employee benefits tending to impose a burden on us and to our employees.

Thank you.

Sincerely,

William E. Haggett

William E. Haggett

REFINERS · MARKETERS · PETROLEUM PRODUCTS

BEACON OIL COMPANY 525 WEST THIRD STREET, HANFORD, CALIFORNIA 93230
AREA CODE (209) PHONE 582-0241

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room DS-219
Dirksen Senate Office Building
Washington D.C. 20510

Dear Mr. DeArment:

With reference to the public hearing held on July 26, July 27 and July 30 by the Finance Subcommittee on Taxation and Debt Management concerning the issue of fringe benefits, the following is my written statement on the subject.

Beacon Oil Company has operated a 501(c)(9) trust for the benefit of our employees for over five years. The reason we selected this form of financing is that it provides the most efficient and cost effective method of delivering needed benefits. Additionally, this method allows the various programs to reflect the wishes and desires of the employees. The employer is able to respond to such program needs because of the preferential tax treatment that this trust receives and the benefit of this tax treatment accrues to the employee.

It would be my opinion that congressional tax policies should encourage the growth of employee benefit plans, not retard them. If employers like ourselves cannot use the 501 (c)(9) trusts as we have, the alternative is to return to prepackaged programs available in the commercial market place. Most of these prepackaged programs cannot respond to the employee needs. The value of these Voluntary Employee Benefit Associations (VEBA's) is the flexibility that is inherent in them.

Beacon Oil's ability to provide medical/dental/vision, long term disability, survivor income and retiree medical benefits is greatly enhanced by the current provisions of the tax code. Actions to curtail this ability to delivery necessary benefits will only result in restrictions being placed on what the employee can expect in future benefits.

Tax policy should encourage the growth of benefits, not reduction.

Very truly yours,

BEACON OIL COMPANY

Lee M. Lockhart
Vice President, Administration

LML:cb

Behar & Associates, PC
Certified Public Accountants
C P A

2536 WYNNTON COURT
P.O. BOX 5807
COLUMBUS, GEORGIA 31906
(404) 327-1953

MEMBER
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT I. BEHAR, CPA

August 13, 1984

United States Finance Committee

Subcommittee on Taxation and Debt Management

Re: Employee Fringe Benefits

Submitted as part of the record of Hearing Employee Fringe Benefits held on July 26, 27, and 30, by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Robert I. Behar, CPA, Behar & Associates, PC, Certified Public Accountants, Columbus, Georgia.

This statement is submitted on behalf of our clients who are currently maintaining or considering providing qualified Pension and/or Profit Sharing retirement plans to their employees.

Our firm represents small businesses exclusively. Our largest client employees less than 125 employees with our typical client employing 12 to 20 employees. These business people are involved in a constant quest for a way to be able to afford to compete effectively with large business, both in the market place for their product and services and in an ability to lure and maintain qualified workers/employees, so that they may survive and grow.

These businesses typify the American dream of "equal opportunity". Our typical client is not looking for an opportunity to go up the ladder of a large corporate employer, and most definitively is not looking for a hand out from his government. They are, in fact, the antithesis of the large corporate employee. Our clients are, in fact, typically made of the same stock that made America great. They are the pioneers of our current society. Striking out in small businesses creating jobs and employment, trying to personify the ideals of our capitalistic society.

Our typical client is not looking for help and would, in fact, be pleased to give up all help in exchange for a reduction in interference. Small business is required to spend an inordinate amount of its time, energy and resources attempting to comply with federal rules and regulations that are most often frustrating and in any number of cases have actually killed incentive to try. It seems as though the over regulation of business, particularly small business with its never ending stream of computer generated penalties for failing to follow obscure regulations no matter how hard we try to conform are intended to eliminate the small business existence.

On this particular subject, employee fringe benefits, my clients are particularly troubled. I have been frequently told that I would like to

provide comparable benefits, but that the cost of administration alone prevents me from attempting to do so. We now are faced with even more stringent requirements.

I would like to address a few specifics at this point.

While there is no question but that the owner/employer is looking forward to establishing retirement benefits for themselves, all employees benefit as a result of the current pension law and benefit in much the same ratio as the business benefits from their efforts with respect to the business, i.e. since salaries are reflective of the value of the employee to the business and since under the current law, except for distortions that require benefits to be distributed with prejudice towards the lowly paid employees, retirement benefits benefit the employees in a fair ratio of their contribution to the business enterprise. Back to the old American way of rewarding effort.

As an employer of more than fifteen years now, I have watched large business institute all types of affirmative action programs in order to try to achieve the parody between men and women, black and white, that already existed within small business. Among my clients, we do not find that benefits go principally to men, but that benefits are distributed again among

the employees in their ratio of their contribution to the business effort. Again, with certain restrictions, that tend to distort the benefits for the more lowly paid, benefits will prorate in ratios to wages which would be turn provide benefits without discrimination as to between men or women, black or white.

In order to attract the best qualified employees, it is necessary for small businesses to emulate their larger business counterparts and to develop more and more sophisticated and complex employment compensation packages. In my specific case, even as to my own accounting firm, I find it necessary to compete with companies such as Pratt Whitney for staff and future partners. When these people consider where they will work, they look at salaries, fringe benefits, and opportunity for growth. When the administrative cost is spread among the much larger population of employees, typical of the large American corporation, the cost per employee for benefits can be maintained at relatively low levels. When the same laws and regulations are applied to the small businessmen, the cost per employee sky rockets to intolerable levels. When the small businessman is not given some incentive in the form of tax breaks in order to maintain these programs, he is encouraged to eliminate the benefits altogether, drawing instead the benefits otherwise set aside for the employees as a group for themselves. Now he reaches the dichotomy. If he

does not provide the benefit, he does not have access to the best employees and therefore, his business growth is stunted and perhaps even stalled altogether. If he does provide these benefits, he may no longer be competitive in the market place inasmuch as his cost per unit of product produced will be much higher than that of a larger business. It is an accepted fact in our country small business provides the majority of all jobs and provides for the vast majority all growth in jobs. If our country is to continue to grow, it is going to be necessary for our government to recognize the value of the small business in our society and begin to provide incentives for small business, not through new plans, but through reduced regulation, not through tax incentives, but through relaxed regulation, not through reduced taxation, but through tax policy stability. The small business person is a resilient individual, the very character of his existence provides him, by nature, with the ability to endure reverses that would sink large business. At the same time, they lack the staff and cannot afford to buy the professional services necessary to keep abreast of the continuously changing regulatory environment imposed by the Federal government through its tax law.

Leave the small men alone and he will provide the revenue through tremendously increased profits that this country needs for its survival. Taxing and regulating him out of existence and the country will fall with him.

United States Finance Committee

August 13, 1984

At the present time, our government is operating at a rate of approximately 200 billion dollar a year deficit. No company could survive the deficit spending rate of the Federal government. Any company or private enterprise, put in this position would be bankrupt and out of existence and out of business long ago. The Federal government is dependent upon the private sector to fund its deficit. The United States of America borrows the same place I do, from the American people. Pension and Profit Sharing plans are an encouragement to save. The stronger the encouragement, the more likely savings will take place. These savings represent a method for the Federal government to fund its deficit as these savings represent an increase in the available capital base which will ultimately be loaned to someone and at the present time the vast majority of these funds will be loaned ultimately to the Federal government. I suggest that in lieu of restricting qualified Profit Sharing and Pension plans, the government might well consider encouraging them more aggressively as a source of funds to fund the national debt.

When considering the question of whether business ought to be encouraged to provide for the retirement of its employees, or if this is a function to the Federal government; the question is raised, Can these benefits be provided for at a lower cost by the Federal government that provide for by free enterprise. I think that the answer to this question is clear. When we look at the Social Security problem, it must be obvious with all of the

resources at the government's disposal can barely keep itself above water, why should we believe that an expanded Federal retirement program would be any better. I think that it is also significant to consider the fact that with the exception of the fact of the partially funded Social Security program, all other Federal retirement programs are "un-funded" obligations of the Federal government. The private industry is not allowed to provide un-funded qualified retirement program, while the Federal government goes forward with these programs with immunity. What is the actuarial calculated liability of the Federal government to its employees for pensions? This un-funded liability represents an additional deficit to be paid by the American people in the future. This is a mortgage on my children's and my client's children's, all American's children's lives. How can we possibly consider adding to our children's burdens, the responsibility for the retirement programs which are destined to fail if administered by the Federal government in the manner similar to that of the current MediCare, MediCaid and Social Security programs. Private enterprise retirement programs, even with their isolated disasters, are well managed, guarantees of American's golden years. These private pensions are funded and provide billions of dollars in capital for private enterprise and the Federal government as well as providing for retirement with dignity for American people.

A major problem in the United States today, if not the most singularly most important problem in our society today is our shortsightedness. We

fail to update our industry. We sacrifice long term profits for short term benefits. We have a tremendous need in the United States to raise taxes at this time and as such it appears as though we may be willing to further mortgage our future. Let us one time take a long look at where we are going and the long term benefit and the long term cost of our qualified retirement programs. Yes, you may raise more dollars today by eliminating qualified programs, but the financial burden that you place on our children and our children's children is an unreasonable burden. Let us instead of taking from our children, let us give to our children. Let us go down in history as those who cared enough to change the trend from the now generation to the caring generation. Let us now sacrifice so that they have more and better lives. You, the members of this committee, can make a difference. You can begin to look at qualified retirement programs, not just as a method of raising more taxes (by eliminating them), but as a low cost method of providing for our senior citizens without placing unreasonable burdens on our children and our children's children. Remember we have that chance. Are we the now, me, I, myopic generation or do we care about them and are we prepared to take those steps necessary to see to it that there is in fact a future.

BELL ATLANTIC

Written Statement on Benefits

for

United States Senate Committee on Finance

Subcommittee on Taxation and Debt Management

Hearings on Employee Fringe Benefit

August 13, 1984

This is to provide written testimony of Bell Atlantic's interest in the subcommittee's questions concerning federal tax law support of employee fringe benefit programs.

Bell Atlantic is one of the regional holding companies established as a result of the divestiture of American Telephone & Telegraph Corporation. Our Subsidiaries provide local access telephone services to seven states: Chesapeake & Potomac serving Virginia, Maryland, West Virginia and Washington, D.C.; Bell of Pennsylvania serving Pennsylvania; Diamond State serving Delaware; and New Jersey Bell serving New Jersey. Bell Atlantic has several other subsidiaries which provide communication services to the same seven state area. We have over 80,000 employees and almost 30,000 retirees, and they have dependents.

A variety of employee benefits are provided to our employees. Among our benefit plans are two qualified defined benefit pension plans, self funded and insured medical benefit plans, self funded short and long term disability plans, two qualified thrift plans, on insured dental plan, an insured vision care plan, and a life insurance plan. All of our employees are eligible to participate in all of our plans on the same basis and all plan benefits are provided uniformly. These benefits in partnership with existing, public programs such as Medicare and Social Security and personal self-sufficiency have formed an effective web of economic security for the vast majority of our work force.

It is our concern that if Congress decided to revoke

tax-favored status for our existing plans, serious negative consequences for Bell Atlantic and its employees would result. We believe that the employer-sponsored benefit system which has evolved through the encouragement of existing tax provisions should be allowed to continue, and even increase. The taxation of employee benefits is a reversal of long-standing tax policy and will lead to a contraction of the employer-sponsored fringe benefit delivery system. If benefits currently provided by employers are not provided, employees will turn to the government to provide those benefits, perhaps through some form of social health care program.

We will now focus our attention on questions posed in the Subcommittee's press release of June 4, 1984, announcing hearings on employee fringe benefits. In response to question one, should the tax law encourage employers to provide fringe benefits, we feel the tax law should encourage employers to provide fringe benefits.

Tax laws should encourage employers to provide benefits for retirement, disability, medical and death benefits. Additionally, tax incentives should also be provided to aid economically hard hit employees in today's work force. One example would be educational assistance through career development and training programs. An effective incentive was Section 127 of the Tax Code which was eliminated from the June Congressional Tax Conference. Section 127 of the tax code enabled retraining of employees faced with loss of employment as a result of mechanization or other changes in the job market. Congressional

unwillingness to exempt employee relocation programs from coverage, under the new discount and interest-free law provisions of the Deficit Reduction Act of 1984, similarly ignores the need of companies to relocate employees where they can be more productive. It should also be noted that a large percentage of our employees are represented by the Communication Workers of America. The elimination of education assistance will adversely affect these union employees, many of whom need retraining to prepare for changing employment opportunities.

A third issue that Congress should keep in mind in designing and restructuring benefit tax incentives is that more distinctions should be drawn between large employers and small employers and between employers with union-represented employees and those without. The requirement that an incentive stock option plan receive shareholder approval presents problems for a large publicly held Corporation. Tax incentive laws should not be subject to rules which are costly or difficult to administer.

In response to the Subcommittee's question concerning conditions or restrictions appropriate for tax incentives, Bell Atlantic strongly supports tightening of the rules concerning the Pension Benefit Guaranty Corporation. Specifically, federal insurance premiums should be risk-related so that employers who fund their plans above the minimum funding standard pay lower premiums. Plan funding and plan termination rules should be changed to minimize the risk to large employers like Bell Atlantic.

Another "condition" that should be addressed is the requirement

that employee benefits tax incentives comply with regulations issued by the Internal Revenue Service. The Internal Revenue Code is complex and many of the sections dealing with benefit plans are inter-related. A change in one section can cause unanticipated results and complications in another. The IRS is extremely slow to issue regulations in employee benefit matters and often seem to change legislative intent.

We hope that future employee benefit legislation will not contain a broad grant of regulatory authority and that statutes passed by Congress contain all the material and conditions affecting tax incentives.

In regard to the question of the effect of existing rules on receipt of benefits by all employees, Bell Atlantic supports Congressional efforts to assure that benefits provided by an employer are provided to all employees. As stated earlier in this statement all of our employees are eligible to participate in all of our tax deductible benefit plans on the same basis.

As to questions of cost comparison among employer-provided tax-favored benefits, Government-provided benefits, employer-provided benefits on a taxable basis, and employee-purchased benefits, it is our position that sound benefit plans must exist to cover catastrophic situations for America's work force and their dependents. If there were no tax incentives for providing fringe benefits, it is anticipated that a severe reduction of employer-sponsored plans would result. The tax burden for companies would remain the same and employees would press employers to "keep them whole" for the additional personal

tax liability for benefits which heretofore have not been taxed. Employees, once taxed on their employer-sponsored fringe benefits, might then choose not to be covered under Company benefit plans. This could further erode the ability of employees to adequately provide for a portion of their own economic security and that of their dependents. The provision of benefits by the employer on a nontaxable basis maximizes employee selection of benefits over cash compensation. If tax savings are involved and employers are paying part or all of the benefit cost directly, employees are more likely to participate in a comprehensive medical expense benefit plan rather than take immediate cash compensation. Of course, the federal government could enter the benefit business. Given the recent problems with Medicare and Social Security versus the success of the private sector in providing benefits, however, it appears that the private sector should continue its efforts in the benefit area. Recognizably, this effort will require the continued support of Congress in providing appropriate tax incentives.

The last area that we will comment on concerns incentives for employers to provide flexible or ("cafeteria") benefit plans. At present, we do not have a flexible plan, however, we are in the process of studying the feasibility of implementing such a plan. Like other companies, we are attempting to control our costs while at the same time giving employees increased choice and equity. Benefit costs over the last 10 years have soared largely due to virulent medical expense inflation.

our benefit costs are around 40% of payroll. From our analysis of flexible benefit plans to date, they help in controlling cost by eliminating unnecessary benefits (e.g., high levels of life insurance for single employees) and eliminating duplicate coverage (e.g., overlaping medical plans for two career couples). Additionally, flex plans maintain the value of benefits to employees while reducing cost. Based on our analysis, we strongly encourage continuing and increasing favorable tax treatment for flexible benefit plans. Such plans give employees choices and enable plans to meet the changing needs of today's work force.

In summary, we at Bell Atlantic would encourage Congress to develop a thorough understanding of the affects on benefit programs before changing tax laws or imposing additional rules. We are pleased that this understanding process has been started by this subcommittee. If changes are necessary, please write the law to correct abuse without adversely affecting benefit programs which are valuable to millions of people and which contribute to national objectives. Lastly, we would urge Congress not to make frequent changes in laws affecting benefits as they are costly and difficult to administer for employers and disruptive to employees.

We appreciate the opportunity to provide this statement in support of tax incentives to employers to provide employee benefits and would welcome an opportunity to comment on specific proposals that may come about as a result of the Committee's hearings.

Bell
Communications
Research

S. L. King, Jr.
Vice President
Personnel

290 West Mt. Pleasant Avenue
Livingston, N.J 07039
Phone (201) 740-3333

August 13, 1984

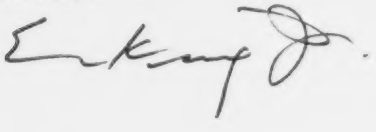
Mr. Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Sir:

Enclosed please find the written statement of Bell Communications Research, Inc. regarding taxation of employee benefits which was the subject of the hearing of the Subcommittee on Taxation of Debt Management held on July 26, 27, and 30, 1984.

I thank you for the opportunity to express the opinion of Bell Communications Research on this very important issue.

Sincerely,



STATEMENT OF BELL COMMUNICATIONS RESEARCH, INC.
ON THE TAXATION OF EMPLOYEE BENEFITS

Bell Communications Research, Inc. currently has 7,016 employees. In my opinion, the economic security of active and retired employees is heavily dependent on employee benefits. The benefits provided by our Company satisfy important and significant social goals that would be seriously undermined if the current tax treatment of employer-provided fringe benefits is altered. Employee benefits do not discriminate in favor of the highly paid, but provide a wide range of protection to all workers.

The taxation of benefits such as medical, health insurance and educational assistance will increase the tax burden for the average worker while adding nothing to his or her earnings. Employer-provided benefits such as health insurance plans provide employees with security against catastrophic losses. If such benefits were taxable to the employee, many would be inclined to refuse coverage, even if the benefits are needed to protect themselves or their families. In addition, many employers are likely to drop or reduce their benefit plans if the employer no longer receives favorable tax treatment for providing benefits and the benefits become taxable to the employee. Many employees may not purchase necessary supplemental insurance on their own and as a result, will become vulnerable to the possibility of incurring enormous health care expenses.

The private sector has provided the most comprehensive benefit package available to employees. According to Census Bureau data, of workers who earn less than $25,000, 76% are covered by corporate pension plans and 78% participate in group health care plans. Without employer-provided plans, employees would be more dependent on the federal government. There is no evidence that the government could run these programs as efficiently as they are run by private employers or that the government would be prepared to assume the cost to do so. Already several of the major public programs in the United States - Medicaid, Medicare and Social Security, for example - are producing large cost overruns.

The need for benefit diversity can best be met through employer-provided benefit plans and not through plans provided by the government. Employers provide a mix of benefits that is tailored to meet the specific needs of their workforce and can do so more efficiently and at a much lower cost than the government can.

DRS. BIZER-COSIO, MPC
1206 Spring Street
JEFFERSONVILLE, INDIANA 47130

Telephone 282-4351

Mier Bizer, M.D.
Julio Cosio, M.D.
Gaston Maya, M.D.

August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommitte on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Joy Huff Stidam

Joy Huff Stidam

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Joy Huff Stidam

If the element of tax incentive for the private employee benefit plan system is no longer in effect, it will effect and probably eliminate the plan for many of the low and middle income people who work for the small business in our country.

I am not a highly paid employee, and I do benefit from this plan that my employer might not be able to offer without the tax incentive.

As a working mother of a middle income young family, there is seldom extra cash and especially enough to start an IRA. With the apparent unstable situation of the Social Security System, my benefit plan may be all that I will have by the time I reach retirement age.

BENCHCRAFT OF HICKORY

July 31, 1984

Senator Bob Packwood
Dicksen Senate Office Building
Washington, D. C. 20510

Dear Senator Packwood:

Employee benefit programs are provided to achieve employee current and long term social and economic needs. Their continued improvement should be encouraged by tax incentives to companies who help this area. The tax incentive along with competition between benefit plan providers would be cheaper then government operated programs. The private section will hring a level of benefits that can be provided to the employees based on the company's economics. If the function was left to the discression of the employees, there would be a large gap in individual coverage due to their not purchasing because of cost and then falling short at time of need.

The Company would be controlled by the level of benefits offered by cost levels they can justify against competition and provides an inflation control. This in turn is balanced by the consumer who says what cost they will pay for product or service. The Company can use its' benefit to attract good workers to their organization and enhance its' productivity.

To provide benefits at a cheaper cost by government without a check and balance system does not appear feasible. The check and balance system controlled by product, service and productivity must be our system. We should be a government trying to provide incentive to challenge individuals to higher performance not restraint their growth by providing equal rewards.

Post Office Box 1733 Hickory, North Carolina 28603 Tel: 704 322 5995

Time changes conditions for individuals and families in their benefit requirements. If we are going to service the needs of employees in the future then we need more flexabilities in programs. The ability to change benefit structure to an employee should be an acceptable practice. Organizations can afford to spend some amount on each employee, so let the two pick what suit the needs. But for the amount available to spend, the burden should rest with the employee who is also the ultimate consumer. He will determine what he is willing to pay a price for a product or service.

Sincerely yours,

BENCHCRAFT OF HICKORY

Wm. C. Massie
Controller - Vice-President Administration

WCM:tw

Benefit Actuaries, Inc.
146 Monroe Center N.W., Suite 650 • Grand Rapids, Michigan 49503 • 616/459-0133

July 31, 1984

To: Mr. Roderick A. DeArment
Chief Council

Committee on Finance
Room SD219
Derkson Senate Office Bldg.
Washington, D.C. 20510

Re: Employee Benefit Hearings

Dear Sir:

As a Third Party Administrator we are administering health insurance programs for approximately 15,000 individuals. These health plans are non-discriminatory in that all parties in each firm are provided the same health benefits and dependent coverage is either provided or avialable on an equal basis. With the exception of 3 major size group, we administer for 2,392 stores and shops with an average of 3.67 employees and 2.11 dependents. With the rapid, out of control esculation of health care costs over the past several years the expenses of health insurance has risen to be a major expenditure for all these employers. More and more of the employers are starting to consider sharing costs with employee's and some actually do so. If the health care premiums are removed from preferential tax status then the entire cost of the coverage will be passed on as income to the employees. The effects of this would undoubtedly be serious.

In our opinion, based on 15 years of administration of health plans and close contact with the individual insured groups, the following would be the probable result:

(1) Young single employees would opt out of the plans.
(2) Young married couples would tend to opt out unless a health problem or maternity claim was immenmt.
(3) There would be heavy reliance on Medicade in the metropolitan areas.
(4) Of the 11½ million dollars we annually pay in claims at least 50% (5 to 6 million dollars) would revert to governmental programs.
(5) With the young group destroyed the remaining participants would be the older, costlier members with the need for exorbitant premiums.
(6) In short, the removal of health benefits from tax deductibility would undoubtedly create a great hardship on both employers and employees and would encourage both to act in such a manner that would endanger the

private sector health insurance plans.

If our predictions are correct, or even if they are substantially correct, the potential tax income to the coffers of the Federal Government are a pittance compared to the outflow of added expense to the public agencies for health care assistance. It has been suggested that the fact that small business owners do not communicate with their representatives is indication that they do not regard the non-taxable status of fringe benefits important. Nothing could be less true. If this insidious movement to tax fringe benefits continues to its desired culmination we predict a response that will send the same proponents scrambling to reverse the action and thus "rescue the small businessman." Some, seemingly, do not realize that the vast majority of the small business community are those employers that average 5 employees or less. They are legion and, like a sleeping tiger, best not aroused.

We sincerely hope that long and serious thought is expended before reversing the previously encourgaged practice of providing health coverage for employees on a tax deductible basis. In our opinion, it would be a counter-production move.

Sincerely yours,

Clifton E. Rowden

Clifton E. Rowden
President

CR

tm

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Bldg.
Washington, D.C. 20510

To Whom It Concerns:

I am writing in regard of the hearings on fringe benefits which are being held by the above named committee. I wish to submit a written statement for inclusion in the printed record of the hearing.

I am a partner in the employee benefit consulting firm, Benefits, Inc., in Milwaukee, Wisconsin. We represent the employee benefit interests of in excess of 300 corporate clients. In this capacity we are instrumental in defining and implementing corporate philosophies with regard to compensation and, in particular, fringe benefit packages. We feel we can represent the feelings of our corporate clients which are a cross section of the Milwaukee Metropolitan area in this matter.

Employers in our area share a common commitment to provide personal security to employees and their dependents. Voluntarily created employer sponsored life, health and disability insurance, pension plans and other benefits, cover the majority of employees working on a full-time basis by our clients. These programs have been encouraged by favorable Federal tax treatment and, in turn, saved the Federal government substantial sums which would otherwise have been necessary to fund and operate government welfare plans.

We and our clients are concerned that the tax environment for employee benefits is becoming less comfortable for a number of reasons. The search for new tax revenue is intensifying. There is a growing perception that increases in tax preferred employee benefits and retirement income incentives are eroding the existing tax base and compromising the stability of Social Security. There is also a wide spread bias among congressional and treasury staff against employee benefits because they are perceived as unfairly discriminating in favor of highly compensated employees.

A number of proposals to reduce the favorable tax treatment of employee benefits were considered in the recent tax conference or are on the horizon. They cover a wide range of tax preferences including, for example, restrictions on voluntary employee benefit associations and cafeteria plans, a cap on the exclusion of employer contributions to group health insurance plans in particular or on all employer sponsored benefits in general, taxation of employer funded educational

EMPLOYEE BENEFITS
AND RETIREMENT PLANNING
811 East Wisconsin Ave.
Milwaukee WI 53202
414—271-7353

Benefits

assistance, imposition of Social Security tax on all nonretirement benefit plans, or restrictive limits on pension benefits, prohibition of IRA deposits for employees who are vested in their employer's pension plan, and a variety of flat tax proposals that would eliminate the exclusion of benefits from employee income.

We are concerned that a change in the tax environment will affect the system of providing employee benefits adversely. Employee benefit plans have proven to be a most efficient and cost effective way to deliver economic security to employees. Employee awareness of the importance of quality benefits have created a need for all employers to provide quality benefit programs in order to attract high caliber employees.

Pension, life insurance, disability, health insurance plans and other benefits are provided for employees at all wage and salary levels, not just highly compensated top executives. While it is not uncommon that top executives may receive some discriminatory benefits, these are almost exclusively provided through arrangements which are not tax favored.

Preferential tax treatment for these plans has encouraged their growth and is a wise investment in the future of economic security of the nation. If tax policies cease to encourage employee benefits, additional strain would inevitably be placed upon public institutions and programs ranging from community hospitals through the Social Security retirement and disability income system.

Congressional tax policy has fostered the growth of employee benefit plans and the laws nave been effective in assuring benefits will be provided on a nondiscriminatory basis. We hope Congress will resist the temptation to regard employee benefits as simply an untapped source of revenue. A change in congressional attitude at this time would inevitably result in a loss of personal security to all employees.

In summary, we believe the system as now established is extremely successful and believe any revision should enhance the current benefit delivery system, not detract from it. The cornerstone of success has been favorable tax treatment which has encouraged employers to provide quality employee benefits and a change in tax treatment at this time would undo the good which has already been done.

Thank you for consideration of our comments.

Sincerely yours,

William H. Siehr

WHS/kkc

Rec'd 8/1/84

Bennett Motor Company

P. O. Box 231 CHERAW, SOUTH CAROLINA 29520 Phone 803-537-7873

OLDSMOBILE
Cadillac
BUICK

July 23, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Mr. DeArment,

This letter is in regard to the Public Hearings that will be held on July 26, 27, and 30, 1984, on the issue of Employee Fringe Benefits. We feel that the benefits we offer do not principally go to the highly paid and are equally paid to women and minorities. We feel that our workers will suffer if employer-sponsored benefits do not exist and that employee benefits are essential to the economic security of our workers, retirees, and their dependents.

We feel that enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate prices to our nation will be greater and hope that we as a private enterprise will be attempted to continue to offer all our employees fringe benefits that they so badly need.

Sincerely,

Robert M. Bennett

LAW OFFICES

BOESCHE, McDERMOTT & ESKRIDGE

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

RICHARD B. McDERMOTT (1905-1977)

FENELON BOESCHE *
T. HILLIS ESKRIDGE *
FRANKLIN D. HETTINGER
LANCE STOCKWELL
R. CASEY COOPER
DAVID B. McKINNEY

CHARLES A. GRISSOM, JR.
BRADLEY K. BEASLEY
BURK E. BISHOP
CRAIG A. STOKES
GARY W. BOYLE
MALCOLM E. ROSSER IV
CHARLES H. CRAIN
PAULA E. PYRON
R. DAVID WHITAKER

* A PROFESSIONAL CORPORATION

320 SOUTH BOSTON BUILDING
SUITE 1300
TULSA, OKLAHOMA 74103

AREA CODE 918
583-1777

JULY 27, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Building
Washington, D. C.

Dear Mr. DeArment:

I enclose a statement to be included as part of the record of the hearing on employee fringe benefits to be held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

I would appreciate it if you would arrange for this statement to be included in the record. Thank you for your assistance.

Yours very truly,

David B. McKinney
Of BOESCHE, McDERMOTT & ESKRIDGE

DBM:ri

STATEMENT

Statement submitted as part of the record of the hearing on ployee Fringe Benefits held on July 26, 27 and 30 by the United ates Finance Committee, Subcommittee on Taxation and Debt nagement.

By David B. McKinney
320 South Boston, Suite 1300
Tulsa, Oklahoma 74103
918-583-1777

I am an attorney who has developed retirement plans for ivate businesses for the last 9 1/2 years in Tulsa, Oklahoma. am a partner with the firm of Boesche, McDermott & Eskridge. practice includes several other areas of concentration, so I not dependent for my livelihood upon the continued government gulation of fringe benefits.

I have assisted in the development of benefit plans for ployers having from three to six hundred employees. Although ere are some obvious differences in the desires of different mpanies, there are also some universals.

By far the most pressing need of these employers is the need r consistency in regulation. Employers, especially smaller ployers, find it very difficult to justify a benefit program at requires constant tinkering. Even if they adopt one of the ster plans, and thereby avoid attorney fees in amending their lans, they are still faced with substantial additional ccounting costs in constantly revising their books to take ccount of amendments.

The second biggest need in employee benefits is to improve mployee relations. My experience has been that most employees ould rather have cash than a retirement plan contribution. This s obviously shortsighted, and employers are really protecting heir employees from themselves by establishing a "forced avings" retirement program. I do not believe that my clients ill continue to fight the employee relations battle if Congress adically changes the benefit rules.

Congress would be doing a great disservice to the rank and ile worker if it limited retirement benefits to those which ould be provided by some sort of expanded individual retirement ccount. The people who really need a retirement would never pen an individual retirement account.

A corollary of the need for better employee relations is the eed for employee loyalty. An employer's biggest resistence to a etirement plan is almost uniformly the vesting schedule, because he employers know that good employees really will quit to get heir retirement money once they are 100% vested. If Congress peeds up the vesting schedule to any material degree, it will

see a massive termination of retirement plans.

I supported the TEFRA amendments, especially the top-heavy amendments and the elimination of the cost of living increases in plan contributions. The Section 415 limits are virtually impossible to explain even to an educated man, but I urge that they not be altered any more. One can eventually understand the law, but there are very few managers who will take the time to learn something as difficult as a Section 415 limit if it is amended every year.

If Congress must tinker with the benefit system to raise taxes, I urge that it limit its focus to some areas which will not destroy the retirement safety net which has been established. Here are those areas:

1. Lower the dollar limits on contributions and benefits. I believe that most plans would continue if the defined contribution limit were reduced to $15,000, and the defined benefit limit were reduced to $45,000. People who make enough money to make bigger contributions or benefit accruals can afford to defer their income in other ways.

2. Eliminate all loans, but with a grandfather clause for loans which have already been made. I urge Congress, however, not to eliminate the administrator's right to make premature distributions for bona fide purposes. I have seen many unfortunate situations in which a good worker would have had to quit his job to get his retirement money if the emergency distribution exception had not existed.

3. Eliminate the tax deferral on income on voluntary contributions.

4. Require that a percentage of the retirement plan fund be invested in government obligations. If this were limited to funds of over $1,000,000, this would provide additional funding for the national debt, would avoid some of the potential Pension Benefit Guaranty Corporation obligations, and probably would not concern anyone.

TAXATION OF EMPLOYEE BENEFITS

A Statement By
The Boeing Company

August 20, 1984

BOEING

The taxation of employee benefits has been a subject of considerable debate over the past few years. As the Senate Finance Committee undertakes to review the options available for revising the federal tax system, it again becomes a key issue. The following statement represents The Boeing Company's position for the record concerning the matter of employee benefit taxation.

The Boeing Company currently employs over 87,000 employees, most of whom live in Washington, Kansas and Pennsylvania. The large majority of these employees, regardless of income level, are covered or are eligible for coverage under qualified health and pension plans. Starting with a modest amount of group life insurance coverage in 1921, Boeing now offers a variety of corporate and subsidiary employee benefit plans. These include health, disability and life insurance plans that protect our employees and their families against major current financial risks, as well as pension and profit sharing plans that are designed to provide them with future income security. However, Boeing does not sponsor group legal, automobile, day care, cafeteria or other flexible benefit plans.

Boeing's benefit plans provide coverage to employees regardless of their income level. For example, it is important to note that over 90 percent of our employees -- at all income levels -- are covered under a single corporate defined benefit pension plan.

The evolution of employee benefit plans has occurred at Boeing as well as other employers for a variety of reasons. Few would deny that the favorable tax treatment received by both employers and employees has played an important role in the evolution. But at the same time that tax law has encouraged the development of employee benefit plans, Congress has also taken the initiative to set certain social policies that are to be reflected in these plans. The question that is now being considered is whether the tax system should continue to support the social policies that are an integral part of the evolution of employee benefit plans.

While the government has taken the responsibility for the financial protection of certain sectors of the population including the poor, employers have been encouraged to take such responsibility for the employed population and, in many cases, their families. Such encouragement is reflected in:

- the passage of the Employee Retirement Income Security Act of 1974 (ERISA) as a global protection of employee rights under qualified private sector welfare (health) and pension plans;

- the provision included in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requiring that Medicare coverage be secondary to an employer's coverage for active employees between ages 65 and 70;

- the 1984 pension equity legislation passed by Congress requiring among other things that the minimum age for participation under pension plans be lowered from 25 to 21 and that more liberal rules regarding the retention of individual retirement credits be applied when breaks in service occur; and

- legislation considered by Congress in past years to require the extension of group health insurance coverage to laid off employees.

These are but a few examples of the directions given employers by Congress to ensure the availability of fiscally and socially responsible programs for employees.

If Congress were to now pass legislation that would result in taxing employers for their costs associated with employee benefits, employers would be faced with conflicting messages. Although it is impossible to precisely predict what would happen if benefits were to become taxable, it is probably safe to assume that at least a number of employers would continue to fund their plans in the near term to comply with collective bargaining agreements or because of a feeling of social responsibility. It is important to note, however, that the additional costs that employers would face because of such increased taxation would have to be met in one of two ways, by either raising prices in the marketplace or by reducing benefits and/or compensation to employees. In the first case, higher prices would contribute to both inflation in the economy as well as to a more tenuous position for employers competing in the

international marketplace. In the latter case, it would likely be the lower income employees who would be hurt most by the reduced benefit and compensation levels.

Of greater concern to public policy makers, however, should be the impact that employee benefit taxation would have on employees of those companies who choose not to continue the funding of their benefit plans in the absence of favorable tax treatment. With no incentive to do so, it is not hard to imagine that certain employers, especially smaller ones, would find it financially infeasible or at least no longer practical to continue their plans. This in turn would leave millions of workers with little or no financial protection against immediate or future risks. Again, the advantages of expanding the tax base could be expected to be offset by the added costs of providing government supported programs to replace this protection.

Recognizing the policy implications of taxing all employee benefits, many would propose the more moderate approach of applying a tax cap to health insurance premiums. The argument is that a tax cap represents an option that would likely restrain the future growth of such tax exempt benefits while also encouraging employers to continue to provide at least some level of health care coverage. The difficulties of such an approach are that tax caps often discriminate against:

- those workers in regions of the country where health care costs are highest, and

- lower income workers who suffer most when benefits are reduced to bring premiums in line with the tax cap.

With regard to the first point, Boeing perhaps offers a good example of how a tax cap might discriminate against certain regions of the country. In 1983, Boeing's medical care costs for hourly employees in the Midwest were 15 percent higher than comparable costs under the same coverage for hourly employees in the Pacific Northwest. Other data sources have shown comparable differences between the Pacific Northwest and other parts of the West Coast. The question that should be considered, then, is whether employees in one part of the country should be subject to a greater tax burden than employees in other areas even though all are covered under the same plan. This issue of varying levels of taxation on the same benefit plan and the subsequent employee discontent is an issue that not only employers will have to face but also one that ultimately members of Congress will have to address with their constituents. Thus, while the tax cap approach may perhaps be a more palatable approach to taxation of benefits, a number of social policy questions must be addressed before such a cap can be appropriately designed.

For many years, Boeing has pursued a variety of efforts to control employee benefit costs, both in an effort to remain competitive in the marketplace as well as to keep our costs down under government contracts. These efforts include: taking an active role in the legislative and public health planning process to prevent unnecessary health care cost increases; redesigning our benefit plans to include cost control features such as mandatory second surgical opinions; pursuing more aggressive administrative guidelines for our plans, including the development of a more extensive data base; and working

with the health care community in joint efforts to control costs, including Boeing's initiation of hospital concurrent peer review programs in Seattle and Wichita. The point is that because we share many of the same concerns as Congress with regard to rising benefit costs, we and other employers are making every effort to control costs while protecting the integrity of the system.

In short, we believe that the current system of providing employee benefits has been directed by a public policy that has generally been both financially and socially responsible. We therefore urge Congress to carefully review each of the options being proposed for taxing employee benefits with an eye toward whether it will serve to maintain or replace, with comparable efficiency and security, the current financial protection afforded the employed population of the nation.

* * *

BOEING

3

BOLEY FEATHERSTON HUFFMAN & DEAL CO.
INSURANCE AND BONDS
Where Insurance Needs Are Our Business
P. O. Drawer 10, Wichita Falls, Texas 76307 Phone: 817-723-7111

August 1, 1984

Roderick A. DeArment
Chief Consel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, DC 20510

Dear Sir:

I am writing in support of the current tax favored treatment of employee pension and welfare benefits. As a life insurance agent with 22 years of experience, I have seen the effects of these benefits as they favor the rank and file people of our country.

I am currently paying a $20,000 death claim to the benefit of a young Mexican-American who would not have had this insurance if it were not for the tax benefits given to her employer to provide group insurance to his employees.

Each week we see evidence of the good that comes from favorable tax treatment of employee benefit plans. The tax advantages are one of the reasons employers have these plans for the benefit of their employees.

I feel that anything that can be done to encourage employers to impliment employee benefit plans should be done. Removing tax incentives will result in wholesale lapsing of employee benefit plans by employers. Please do not remove these incentives.

If anything you should consider increasing tax benefits for employers who have employee benefit plans involving life and long term disability insurance.

Thanks very much for listening to me.

Sincerely,

M. E. Huffman

M. E. Huffman, CLU

MEH/cp

Booke & Company
Consultants/Actuaries

August 10, 1984

Submitted as Part of the Record of Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Booke & Company

Booke & Company is an employee benefits consulting and actuarial firm located in Winston-Salem, North Carolina with branch offices in Columbus, Ohio and Birmingham, Alabama. In its role, the Company primarily provides services to a large number of small and medium-sized employers throughout the Southeast and Midwest. Both through our business functions and as an employer serving the needs of 245 employees, we are acutely concerned about the growing misperception of many members of Congress that tax-favored employee benefits are a valid source of revenue. The tax bills of 1982 and 1984 demonstrate beginning attempts at wholesale destruction of effective arrangements serving the needs of millions of employees.

The private enterprise system has built an efficient arrangement to cover the needs of employees through the employee benefit system. Through employer-sponsored employee benefits, basic financial security is provided for medical care, for the necessary income replacement due to disability or to death and for retirement, as well as for other day-to-day needs which assist in the general welfare of the employee. Because of an employer's more specific knowledge of its employee demographics and consequently their particular needs, it can design a more efficient and effective benefit package.

Post Office Box 66/Winston-Salem, North Carolina 27102/(919) 748-1120

Booke & Company provides such a package for its own employees on a nondiscriminatory basis. Of these benefits, only a small portion is truly tax-exempt, the remainder being in the form that will be taxed when paid out to employees. By doing so, employee morale and security are increased by the assurance of some financial protection.

If the private sector is not encouraged to meet these employee needs, then government must do so. Current structure in fact recognizes that employees either would not, or could not, provide their own benefits. The government is currently not in a position financially or organizationally to adequately or effectively provide such needed protection. Ultimately, the cost on a national basis will be far greater for government sponsorship. The private benefit system should not be systematically dismantled in pursuit of greater tax revenues.

We would urge careful consideration of a national tax policy on employee benefits: a policy that considers the basic social issues involved and makes affirmative decisions regarding what benefits should be provided, who should provide them, and how the benefits delivery system should be structured. Simultaneously, and as an integral part is a consideration of how this benefits policy should be encouraged and implemented. After this thorough analysis, we believe the private sector system of employer-sponsored programs should ultimately prevail as the most cost efficient and effective way to serve the general public interest.

Jack B. Brabham
215 West Woodstone
Baton Rouge, Louisiana 70808
July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

In compliance with your requirements, I am submitting this letter including the following statement which I request be made a part of the record of the Hearing On Employee Fringe Benefits held on July 26, 27 and 30, 1984, by the United States Finance Committee, Sub-Committee on Taxation and Debt Management:

I am submitting this statement in support of the Private Pension System.

American workers are enjoying savings growth through tax sheltered investments in American companies, U. S. Government securities and other investments. If it were not for the tax advantages (tax deductible contributions, tax deferred savings and favorable tax treatment at retirement) of our present retirement plans, many American workers would not have money for retirement. These retirement plans offer incentives for the employers to provide their employees, at no cost to the employees, a retirement plan other than Social Security, etc.

Individual Retirement Accounts do not constitute a replacement for pension or profit sharing plans because IRA funds may be withdrawn by the employee, thus defeating the retirement nature of the funds.

It does not seem wise to tamper with a system that is working so well and benefiting so many. I urge you to support the private pension system as it is presently structured.

Very truly yours,

Jack B. Brabham

JBB/mm

Ronald D. Brannock
1428 E. Piedmont Road
Marietta, Georgia 30062

August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Ronald D. Brannock
Taxpayer

RDB/wsj

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Ronald D. Brannock
1428 E. Piedmont Road
Marietta, Georgia 30062

I am please to submit to your Subcommittee my comments and opinions on issues relating to private employee benefit plans.

I support these hearings and compliment the Subcommittee for its efforts in developing a full, fair hearing record with respect to employee benefit plans.

My statement will address the following topics:

- There is a need for private plans;
- National policy for these plans should not be driven by tax policy alone;
- Discriminatory practices, which occur only in a small percentage of plans, should be eliminated in ways that do not adversely affect plans that are not discriminatory;
- Private plans should be permitted to integrate with Social Security benefits;
- Whatever our national policy, it should be stable; it should permit employers to put plans and support systems in place without the need for almost constant modification, as is now the case;
- Burdensome administrative requirements should be avoided.

The Need for Private Plans

The economic security provided by private plans relates primarily to the need for continuing income in the event of old age, death or disability -- and the need to meet expenses associated with health care. Most individuals look to the government and their employers for the major portion of their benefit protection.

It appears that underlying employee benefit plan legislation and regulation is the belief that benefits will continue unchanged and that new coverage and plans will continue to develop, even in the face of onerous requirements. However ample evidence indicates that employers respond to adverse laws by curtailing benefits, by terminating plans and by seeking loopholes. The large number of pension plan terminations following ERISA is a good example of such employer reaction.

Our national policy should recognize this, and should encourage the growth of private plan coverage. The economic security needs of individuals will not diminish if their private plan coverage is reduced or eliminated. To the extent such coverage does disappear, it will create pressures for government benefits to expand and fill the gap and it would be wrong to expand government programs beyond their current level.

National Policy Should Not Be Driven by Tax Policy Alone

Our national policy on employee benefit plans needs to reflect social and economic interests that go beyond tax expenditures and the abuse of tax shelters. Many other factors need to be taken into account.

Unfortunately, tax policy has tended to dominate private employee benefit plan legislation. Tax issues are important, but the Treasury and Internal Revenue Service should not establish or dictate social policies. Tax policies can and often do conflict with other social and economic objectives.

Tax policy is a critical and powerful force. It can serve to provide major incentives for the development and expansion of private employee benefits. It can also serve as a major disincentive -- as recent legislation has proved.

Discriminatory Practices

The issue of discrimination in employee benefits needs to be put into proper perspective. Fewer than three percent of employees with pension plan and health insurance coverage earn more than $50,000 a year. And most of the coverage provided for this small group is not discriminatory. To the extend that there is discrimination, it involves only a very small part of the total employee benefit universe. Past efforts to correct abuses have often adversely affected the entire benefit system.

Self-interests have always existed and will continue to exist. In the long run, the public interest will best be served by a policy that harnesses these self-interests and uses them for the good of broad groups of employees. Such a policy requires accommodation, rather than conflict.

Integration With Social Security

It is important that national policy permit the integration of private plan benefits with those provided by Social Security. This applies to retirement, disability and medical expense benefits.

These two systems, private and public, are not mutually exclusive; each reinforces the other. The combination of the two achieves an equitable distribution of benefits at all pay levels. The failure or partial curtailment of either system transfers burdens to

the other. For example, the Social Security Amendments of 1977 and 1983 reduced benefits for covered individuals. In both cases, many private plans automatically increased benefits to reflect the Social Security reductions.

National Policy Should be Stable

Whatever our national policy for employee benefits, it should be stable. It was just ten years ago that ERISA was enacted into law. Since then, we have had two major Social Security amendments, additional legislation relating to age and sex discrimination, revision of plan termination liabilities imposed on multi-employer plans and seven tax bills. All this legislation has had significant impact upon private employee benefit plans.

Apart from the legislation, there has been an enormous amount of regulatory activity, which, in many cases has had greater impact than the legislation itself.

This environment makes it extremely difficult -- in some situations, impossible -- to design and operate employee benefit plans. It takes time to design plans, and it takes time to set up appropriate administrative and support systems. It is often difficult and expensive to make plan changes. Yet employers are constantly forced to modify their plans or plan funding to keep up with current legal requirements. Moreover, because plan provisions and modifications must be communicated to employees, they, too, suffer from the confusion of constant change.

Congress and the Administration must develop a thoughtful, coordinated policy that employers and employees can rely on in the future. There is no need for almost annual change in employee benefit law. The current situation is frustrating and self-defeating. We urge Congress to address this issue and come forth with a meaningful and stable policy that will exist for a reasonable period of time.

Administrative Burdens Should be Avoided

The administrative burdens imposed by law and by regulation are a matter of major concern for private employee benefit plans. The time and cost devoted to compliance have grown tremendously -- and, with the Deficit Reduction Act of 1984, are likely to grow still more. This is due in large part to the complexity of the law itself and the supporting regulations. Clearly, administrative burdens can be counterproductive.

Requirements that inhibit employers and that create unnecessary and difficult burdens will not have a positive effect on private plan formation and expansion. Such requirements lead to plan curtailment and abandonment. The real losers then are the nonmange-

ment employees. And because they are the major beneficiaries of the private system, their losses should be of particular concern to the Congress. We are traveling down the road of more and more regulation. Necessary regulation should be as efficient as possible, and should avoid waste and redundancy. Administrative requirements should be reevaluated regularly and, unless they are meaningful, eliminated promptly.

* * * * * * * * * * *

In Closing

Thanks for the opportunity to express my thoughts to your Subcommittee. I strongly believe in the need for the private system to provide employee benefits and in the system's integrity and will support its continued growth and expansion.

B

WILLIAM F. BRASSINE, P.S.C.
WILLIAM F. BRASSINE, M.D.
1301 WOODLAND DRIVE
ELIZABETHTOWN, KENTUCKY 42701

PRACTICE LIMITED TO
Gynecological Surgery
and Obstetrics

TELEPHONE:
Office 502/769-5971

Fellow American College of
Obstetrics and Gynecology

Diplomate American Board of
Obstetrics and Gynecology

July 27, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee and Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

William F. Brassine

William F. Brassine, M.D.

WFB/lm
cc:
Att: 5

Submitted as part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: William F. Brassine, M.D., P.S.C.

I hereby wish to express my support of the Private Employee Benefit Plan System. This plan has been shown to bring about planning by employers, both for themselves and for their employees. Thus benefits which many people might not otherwise have the self discipline to acquire are made much more enticing and thereby potential future drains on social programs are reduced. Over the several years that these benefit plans exist for any single employer, no significant amount of tax revenue should be lost by the government since taxes will be paid on the proceeds of pension and profit sharing plans when income from them is realized.

Should tax incentives to create and carry out these plans be eliminated, many plans already in existence are sure to be frozen and a significant supplement to social security thus eliminated.

Private employees are just as interested in benefit plans and just as deserving of them as corporate or government employees that are represented by unions which obtain them for these types of workers. Those of us associated with small businesses should be allowed to have plans made for our future just as importantly as those associated with governments and large corporations.

Thank you.

39-707 O - 85 - 22

STATEMENT OF BROCKWAY, INC. (NY)

TO THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE COMMITTEE ON FINANCE

August 13, 1984

by Arnold G. Becker

Vice President, Industrial Relations

Brockway, Inc. is a leading national manufacturer of glass, plastic and metal packaging, sells production technology and equipment to foreign manufacturers, and is engaged in the regional airline business. With more than 30 manufacturing facilities in 17 states, the company employs approximately 12,000 people. In 1983, Brockway had revenues of $828.7 million.

Tax laws historically have encouraged employers to provide strong, broad-based programs of so-called fringe benefits for employees. In the areas of medical care, life insurance, accident and sickness insurance, pension plans, and more recently with savings plans, the private sector makes available affordable and high quality benefits to its employees. Without such benefits, health care and the future financial stability for many employees and their dependents would be curtailed, would become the responsibility and liability of the government, or would not exist to the overall detriment of society.

Brockway, for example, contributes the major share of the cost of the following benefits:

- Comprehensive medical coverage which includes basic hospital, surgical and medical care, major medical coverage, dental coverage and vision care

- Employee term life insurance, at group rates, for eligible dependents

- Sick leave
- Long-term disability
- A pension plan

Additionally, salaried employees are eligible for a savings plan 401 (K) in which the company matches stock to employee contributions.

An employee stock ownership plan (ESOP) has also been in effect since 1976 for salaried employees.

The Brockway benefit package is broad-based. Nearly 72% of our medical and pension costs in 1983 were for hourly employees. If the existing tax laws were changed to disallow corporate tax deductions for the costs of fringe benefits, the company would probably be unable to continue offering such benefits to its employees. If income tax were imputed to the employee on the value of such benefits, it seems likely that most employees would not be able to afford to pay the taxes on the benefits.

Brockway believes that in view of the need for a strengthened social security system and the equally important need to contain medical costs in both the public and private sector, the disallowance of corporate tax deductions for employee benefits, and/or imputing employee income tax on fringe benefits, would be counterproductive to such efforts.

As a related matter, such tax law changes would also reduce

institutional capital, mainly pension funds, currently invested in equity markets with the potential of irrevocable damage to capital formation and the ability of companies to provide employment.

We, therefore, urge you to reject the concept that disallowing business tax deductions for the costs of employee benefit and/or imputing employee income tax on such benefits will somehow enhance government revenues.

To the contrary, in our view, such legislation would severely reduce working capital and exacerbate the federal deficit.

We appreciate the opportunity to submit this statement and thank the committee for considering Brockway's view on this critically important issue.

STATEMENT OF BROWN & WILLIAMSON TOBACCO CORPORATION
IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT
ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, AND 30, 1984.

Brown & Williamson Tobacco Corporation is a national manufacturer and marketer of cigarettes and tobacco products. Brown & Williamson was one of the first employers in the country to institute a pension plan for its salaried employees. Since that August 1932 date, this plan has provided a much appreciated, and much needed, measure of security for employees retiring from this Company. Any proposed additional tax will, it is submitted, undercut this retirement program and diminish retirement security for our employees. That this tax burden would fall on rank and file employees is borne out by this Company's own employment statistics.

In addition to the salaried pension plan referenced above, Brown & Williamson employees have also received benefits under the Factory Employees Retirement Plan instituted in 1949. Retirement benefits have subsequently been an important subject of bargaining for the unions representing employees at Brown & Williamson. The Bakery, Confectionery, and Tobacco Workers International Union represents the production employees, while

STATEMENT OF BROWN & WILLIAMSON TOBACCO CORPORATION

the International Association of Machinists and Aerospace Workers is the principal craft union representing employees at Brown & Williamson. Approximately 3,700 hourly employees represented by these unions have retired under the Factory Pension Plan since its inception.

In the recent plant closing negotiations for our Louisville, Kentucky and Petersburg, Virginia manufacturing facilities, retirement benefits for older employees, who had not yet fully qualified for retirement, was a critical subject of negotiation. Supplemental and enriched pension benefits were negotiated to aid the plight of these displaced older workers.

An average hourly employee retiring from the Company today receives approximately $600 to $800 a month from the Brown & Williamson Factory Retirement Plan. Using present actuarial assumptions contained in the Plan, we have estimated that in order to receive a retirement benefit of $800 per month, an employee would have had to save $98,000 to retire at age 55 and $83,000 for retirement at age 65.

With respect to Brown & Williamson's salaried employees, the majority of the approximately 800 employees who have retired under the auspices of the Salaried Pension Plan has been nonexempt or lower level administrative and technical exempt

employees. The average salaried employee receives approximately $800 a month in pension monies and would have to save at a comparable rate as the hourly employee in order to receive an equivalent retirement benefit. With the cost of living experienced by workers today, such savings are problematical.

Last year, Brown & Williamson Tobacco Corporation paid approximately $18 million in pension benefits to retired employees. Presently, on our active payroll, we have 2,605 hourly employees and 3,204 salaried employees. These employees are working for future retirement security as well as their present needs. The role that this Company has played in meeting retirement needs will not be met easily, if met at all, by our employees or by the Federal government.

We will be happy to provide whatever additional information is necessary so that the facts surrounding this important benefit can be understood.

/dy0257k

BUCYRUS-ERIE
Bucyrus-Erie Company
P.O. BOX 56 • SOUTH MILWAUKEE, WISCONSIN 53172 • PHONE (414) 768-4000

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment,

Re: Finance Subcommittee on Taxation
and Debt Management
Hearings: July 26, 27 and 30, 1984

It is understood that overspending by the elected officials in our Federal Government has led to large deficits. This in turn now forces current leadership to look for additional taxes. We hope also they will have the courage to reduce waste and cut spending.

Employee benefits are an efficient and cost effective way for delivering economic security to employees. Pension, life insurance, disability and health plans benefit all employees, not just key executives. Preferential tax treatment for these plans has encouraged their growth and relieves additional strain which would eventually be placed on the public sector if they were curtailed. We urge that congressional tax policy continue to foster employee benefits, not regard them as simply an untapped source of revenue.

Cordially,

BUCYRUS-ERIE COMPANY

C. R. Revie, Vice President
Human Resources and Administration

CRR/ds

BUSINESS MEN'S ASSURANCE
Company of America

J. W. JONES
VICE PRESIDENT PERSONNEL

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

SUBJECT: Senate Hearings on Fringe Benefits
July 27 and July 30, 1984
United States Senate Committee on Finance
Subcommittees on Taxation and Debt Management

We have recently been aware of the Committee's interest in employer provided fringe benefits and the possibility of their recommending changes that might effect fringe benefit tax treatment. We want to share with you some information about our fringe benefit programs and express our concern regarding possible changes.

Business Men's Assurance is a Kansas City based Life, Health and Reinsurance company in its 75th year. We employ 750 employees in our Home Office (72% are female) and another 750 employees in offices throughout the United States. Our Welfare and Pension Plans apply uniformly to all employees regardless of positions. They include:

(1) Health Insurance - All employees and retirees are provided a basic plan, a major medical plan, plus dental coverage. The cost is shared by employees although the Company pays the majority (our cost for medical insurance in 1983 was $1.3 million). We have recently developed several cost

BMA TOWER • ONE PENN VALLEY PARK • P.O. BOX 458 • KANSAS CITY, MISSOURI 64141 • TELEPHONE (816) 753-8000

containment programs using plan-design incentives that we believe, over the long period will effect reduction in costs. They are primarily directed at changing the consumer's (our employees and their families) health-care buying habits.

(2) Life Insurance - All employees are provided gift life insurance in an amount of one and one half times their base salary. In addition, they can purchase life insurance on their dependents and/or additional amounts for themselves at group-discounted rates. Retirees are provided gift life insurance.

Accident Insurance is also available for purchase for employees and spouses at group discounted rates.

During 1983 our cost for providing these benefits was $260,000.

(3) Disability Insurance - All employees are eligible, in the event that they become permanently disabled, to receive 60% of their base pay for the balance of their working careers (age 65). The plan has a maximum monthly benefit which effects several of the highly paid executives. The cost of providing this benefit in 1983 was $23,000.

(4) Qualified Retirement Plans - All employees are eligible for participation in two Retirement Plans:

A. Defined Benefit Plan - This plan provides for 60% of employees final pay for their lifetime, with provisions for surviving spouses. The plan protects the employee from inflation since it is based on final average pay and our compensation system takes into consideration the cost of living each year. Our contribution to this plan was $2.2 million in 1983.

B. Employee Stock Ownership Plan - This profit sharing plan is available to all employees and is based on the profitability of the Company. Employees accumulate Company stock which is provided to them at the time they retire, die or become disabled. Last year the Company contributed $1.3 million to this plan.

Fringe benefits represent an additional 40% of pay at our Company. The same benefits purchased on the open market (for individuals) would cost more than twice as much. Our fringe benefit plans have evolved over many years as a result of balancing our ability to provide with meeting our competitor's ability to provide. Fringe benefits are an important factor in attracting and retaining employees. On the other hand, our employees have continued to benefit from competition through improved benefits.

It seems to me that private enterprise has built effective systems to provide fringe benefits. They are undoubtedly

superior to any system the government could build. Consider for example the Social Security system which when it was designed was obviously intended to be the primary provider of retirement benefits. Social Security is now a minor part of total retirement benefits in many cases. It is also a source of concern for employees who are counting on it. We believe that we are doing a very good job of meeting our employees' needs and that we should be encouraged to continue to do so. Otherwise, if you remove the competition factors, I believe that we face the danger of raising the price to all of us.

Sincerely,

J. W. Jones

JWJ/lpm

BURTON RUBBER PROCESSING, INC.
14330 KINSMAN ROAD, BURTON, OHIO 44021 / 216-834-4644

July 18, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Our company is very concerned about the issue of taxing fringe benefits provided to employees.

Over the years the success of Burton Rubber and an interest in the living standard of its employees have both contributed to a broad range of benefits. Our medical insurance program, which covers all our employees on an equal basis, cost us more then $2,000 per employee per year. If such benefits were to become taxable, many of our employees would be hard pressed to pay taxes should you legislate them. Moreover, any tax on benefits would undoubtedly tax lower income groups disproportionately to high income earners. Frankly, it would be disasterous and only provide further cause for the move toward socialism.

While some abuses may have invaded benefit programs, taxation is not the solution. Many companies have worthwhile programs that should not be legislated to death (literally speaking).

Sincerely,

BURTON RUBBER PROCESSING, INC.

Robert W. Toth
Vice President - Finance

RWT/ml

cc: Senator Howard Metzenbaum
Senator John H. Glenn
U.S. Representative Dennis E. Eckart

The Business Council of New York State

20 August 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: Taxation of Employee Fringe Benefits

Dear Mr. DeArment:

The Business Council of New York State Inc. is the largest and broadest-based business group in New York State. Its members include some 3,200 member companies employing over 3 million people. We wish to take this opportunity to express our support for a strong, voluntary, private sector employee benefit system to provide economic security to these New York State workers, as well as all workers, their beneficiaries and retirees.

At issue is whether the current tax law should continue to encourage employers to provide fringe benefits; and if so, what level of tax incentive should be provided to insure that sufficient benefits are made available. Certainly, the tax code as it now stands, encourages the private sector to provide adequate health and life insurance and retirement savings. Any deviations to impose a tax cap on medical benefits, we believe, would be a serious setback to the significant progress that the social support system has enjoyed in the past few decades. With the perseverance of Congress, this system has evolved into a strong and stable program for providing necessary health coverage for the vast majority of the American public.

The idea of imposing a tax cap on employee benefits, while not a new one, leaves many serious questions unanswered:

- Would this measure curb the escalating costs of health care? We have not seen any empirical evidence to suggest that individuals will become more cost conscious and thus overall health care costs will decrease.

- What effect would this have on older workers, workers in high risk occupations, and people from large metropolitan cities? Since invariably these groups tend to pay more in health insurance premiums and/or health care costs, a tax cap would adversely affect those who fall within these three categories.

- Would this change be a source of new revenue? While proponents believe the adoption of this measure would raise a substantial amount of new revenue, there exists no clear evidence that this would be the case, given that employers would probably drop some of the current coverage.

- How would government mandated coverages be treated? In New York, state government is continually mandating new health care coverages which drive up the cost businesses must pay in insurance premiums. To compensate business would then look to drop other coverage which in many cases would be of a more critical need to the employee.

In closing, private employee benefit programs have provided substantial risk protection to approximately 150 million American workers, the majority of whom are middle-income. In lieu of business receiving this tax incentive, we fear much of this protection would be deleted, making it difficult for those who truly need it, to provide for retirement or have adequate medical coverage. We believe that implementation of a tax cap would seriously undermine the significant progress made in the evolution of an effective and efficient system of covering the health and welfare of the working public. With continued tax incentives business can remain an integral part of that system.

Sincerely,

Raymond T. Schuler
President

dcb

BUSINESS PLANNING, INC.
Employee Benefit Consultants
Suite 216, 2 Office Park Circle
Birmingham, Alabama
35223-205/870-7090

Today is Wednesday
August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, we are submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,
BUSINESS PLANNING, INC.

Carlton R. Cook

Carlton R. Cook, Chairman

A. Denk Weitnauer, President

CRC/ADW/aj

enclosure

BUSINESS PLANNING, INC.
Employee Benefit Consultants
Suite 216, 2 Office Park Circle
Birmingham, Alabama
35223-205/870-7090

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Sub Committee on Taxation and Debt Management.

By A. Denk Weitnauer and Carlton R. Cook of Business Planning, Inc.

This report is being submitted on behalf of our employer and of clients that maintain Qualified Pension and/or Profit Sharing Retirement Plans for their employees.

Recent discussions on eliminating the private sector Qualified Pension and Profit Sharing Retirement Plans has provoked us to commit to writing our feelings on why we need to have a strong Private Pension System in this country to supplement Social Security Retirement Plan.

1. The Private Sector Qualified Retirement Plan System should be preserved and strengthened rather than imposing more goverment restrictions on the implementation and maintenance of these Plans.

2. Retirement Plan benefits from Private Sector Qualified Retirement Plans make it possible for millions of Americans to retire with dignity.

3. Without Private Sector Qualified Retirement Plans, the overwhelming majority of Americans would be forced to rely on Social Security benefits as their primary if not sole source of income for their "Golden Years".

4. Social Security Retirement benefits was never intended to be the primary source of retirement income for Americans.

5. And even today, it is very difficult for retired persons to live comfortably on Social Security benefits alone.

6. Many employers in the Private Sector already have grown weary of the burdensome demands of regulations and paperwork required to keep their plans qualified and have terminated their Qualified Retirement Plans vowing never to establish another.

7. The big losers are the factory and office workers. It is almost impossible for the average American worker to accumulate enough savings during their working years to use for retirement. The employer and higher paid executives have a better chance of taking care of themselves at retirement. The executive level of employees of a company not only has the ability but the executive has available investment sources not usually attainable to the average worker.

BUSINESS PLANNING, INC.
Employee Benefit Consultants
Suite 216, 2 Office Park Circle
Birmingham, Alabama
35223-205/870-7090

8. Without tax incentives (deductible deposits) the Private Sector would shut down their Qualified Retirement Plans. Employers would take large bonuses for themselves in lieu of Retirement Plan deposits.

9. The truth is that fortunately, in spite of increased government efforts, our clients want to provide retirement for their employees. Our employers feel they have a responsibility to reward faithful and long time service employees with an adequate retirement income.

10. In fact, the new minimum funding standards imposed by TEFRA has little effect on the majority of our clients. They have provided for their employees because they want to rather than they have to.

11. It appears that many people in government do not know of the close and harmonious relationship that exists between management and labor in the Private Sector. Let's not destroy but encourage this good cooperative spirit that exists.

12. Private Qualified Retirement Plans with specified retirement dates and adequate retirement income make it possible to have a good transition into retirement for older employees to make room for the younger employee to "move up the ladder".

13. The majority of Americans do not have the discipline to establish and consistently deposit into an IRA account. Without the government support of private Qualified Retirement Plans, increased Social Security taxes is the only answer to providing adequate retirement income for Americans. We don't need anymore government control over the lives of the citizens of this country. We can take care of ourselves.

14. Finally, the capital formation generated by the Private Sector Qualified Retirement Plans affects every facet of American Life. The jobs generated by investment of Retirement Plan Trust Funds is important to the growth of our country's economy.

15. Enclosed is a recent article from Mobil Oil that was printed in the Wall Street Journal, "Let's Not Tarnish the Golden Years". The article summarized the need of Social Security, Private Sector Retirement Plans, and personal savings. We believe the majority of Americans support Private Qualified Retirement Plans. Government should represent the desires of its people.

Canyon Creek Country Club
17910 BLANCO ROAD • SAN ANTONIO, TEXAS 78232 • 492-1063

July 31, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Re: Hearing on Employee Fringe Benefits
July 26, 27, and 30, 1984

Dear Mr. DeArment:

Canyon Creek Country Club has always prided itself on being an equal opportunity employer. It has been the policy of Canyon Creek Country Club to offer all full time employees the benefits of group insurance. The major portion of the group insurance premiums are paid by Canyon Creek Country Club.

The group insurance plan of Canyon Creek Country Club enables its employees to be secure in the knowledge that their medical needs are provided for without having to utilize their private resources or government agencies. Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues.

If the employee benefits are taxed, it will be a great burden on the working people who are self-sustained. These same workers, already over-burdened with tax, will again be penalized for being self supporting.

Sincerely,

Lillian R. Sanders

Lillian R. Sanders
Office Manager

lrs

August 3, 1984

Mr. Roderick A. De Arment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: Employee Benefit Hearings

Dear Mr. DeArment:

Carpenter Reserve Printing Company is a medium sized printing firm employing 73 persons. We provide the following fringe benefits to all of our full time employees:

1. Hospitalization for the employee in the second month of employment and coverage for spouse and dependents after one year of employment.
2. Group Life Insurance of $3,000 per employee in the second month of employment and additional coverage to a maximum of $32,000 after one year of employment.
3. Profit Sharing Plan - all employees become participants after their first year of employment. Contributions are made based on the profits of the company.

These benefits are fully paid by the company and are valuable assets in providing economic security for our employees and their families. If these benefits were not being provided by the company many of the employees would probably not have adequate hospitalization or life insurance coverage.

I believe the present system of private enterprise providing these benefits is much superior to any type of mandatory governmental program. I also feel that these benefits should continue to be excluded from taxation or deferred from taxation in the case of profit sharing contributions.

Very truly yours,

Robert Highman

Robert Highman
Treasurer

RH;jh

CARPENTER RESERVE PRINTING COMPANY • 7100 EUCLID AVENUE • CLEVELAND, OHIO 44103 • (216) 431-0800

ATTACHMENT B

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Enclosed please find the written statement of our company, South Newton School Corporation, in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26, 27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

Kedrick E. Fisher

Kedrick E. Fisher,
Superintendent

KEF/cjp

STATEMENT OF SOUTH NEWTON SCHOOL CORPORATION IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF THE FRINGE BENEFITS JULY 26,27,& 30, 1984

We at the South Newton School Corporation believe it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees:

-All of our full-time employees are covered, which is 119
-Seventy (70) of our full-time employees are women
-Fifty-seven (57) employees have a salary less than $15,000.00
-Fifty (50) employees have a salary between $15,000.00 - $25,000.00
-Eight (8) employees have a salary between $25,000.00 - $50,000.00
-All of our full-time employees at the South Newton School Corporation are covered by our health insurance plan.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford.Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to pro-ide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Forsyth Memorial Hospital

3333 Silas Creek Parkway
Winston-Salem, NC 27103

CMI
Carolina Medicorp Inc.

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Paul M. Wiles
Senior Vice President

PMW/pg

Enclosure

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee on Taxation and Debt Management.

By Paul M. Wiles, Senior Vice President, Forsyth Memorial Hospital, Winston-Salem, N.C.

Forsyth Memorial Hospital opposes taxing earnings of private employee pension plans because such taxation would reduce the amount of benefits the Hospital could pay to retired employees, many of whom have given a lifetime of service to health care in Winston-Salem, N.C.

Currently, approximately 140 retired Hospital employees receive pension benefits from the Forsyth County Hospital Authority Pension Plan. By 1993, 331 employees are expected to be receiving benefits from the plan.

For many of the Hospital's current retired employees, the Hospital's pension plan benefits represent a third or more of their annual income as retirees. As the pension plan matures, the percentage will be larger for future retirees.

The Forsyth County Hospital Authority pension plan, established in 1969, has a total of 2,047 persons who are participants. As of December 31, 1983, the value of plan assets was $11,728,488. During the last plan year, the plan experienced an increase in its net assets of $2,426,395. This gain resulted from employer contributions, gains on the sale of assets and earnings from investments.

One reason the plan has been able to grow is the tax incentive which currently supports the private employee benefit plan system. In our opinion, removing such an incentive will ultimately be harmful for the economic security of retired employees.

Catholic Cemeteries Association
OF THE ARCHDIOCESE OF HARTFORD, INC.

Richard F. Meagher
Executive Director

August 10, 1984

Mr. Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Sir:

The Catholic Cemeteries Association is composed of 52 union employees and 23 salaried employees as well as 17 retired union employees and 5 retired salaried employees. We have an excellent fringe benefit program that is provided to both union and salaried employees and their families. Retirees and their spouses continue to received medical and hospitalization benefits after age 65. We believe these benefits are in our employees best interest as well as in the best interest of the government. It would be a serious mistake to tax these benefits. Any short term gain the government may realize through increased taxes certainly would be lost in later pay outs because of social benefits that are no longer provided through private programs.

Employers would immediately be forced to provide additional wages to offset the taxes, creating a detrimental inflationary effect. Employees in future negotiations will seek wage benefits rather than health, pension and other fringe benefits, since both would be taxed. Human nature will always prefer money to fringe benefits unless there is an incentive to select the benefit. This would be a national trend, which again would put more pressure on the government to provide benefits that are now being provided in the private sector.

700 MIDDLETOWN AVE., P.O. BOX 517, NORTH HAVEN, CONNECTICUT 06473-0517 • TELEPHONE (203) 239-2557

After considering the long term negative impact of this proposed tax, we sincerely hope that the Committee will decide against taxation of fringe benefits.

Very truly yours,

Richard F. Meagher

RFM/eaf

cc: Senator Lowell P. Weicker, Jr.
Senator Christopher J. Dodd

Catholic Medical Center of Brooklyn and Queens, Inc.
88-25 153RD STREET, JAMAICA, NEW YORK 11432....(212) 657-6800

August 3, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

We, at the Catholic Medical Center, believe it is our responsibility as employers to meet the basic needs of our employees for their financial security.

Through our union and non-union plans, we provide hospitalization, life insurance, eye glass, dental and prescription plans to all levels of employees.

We are a predominately female and minority oriented industry. We do not discriminate against any class of employee.

We, and the unions we negotiate with, have chosen to provide benefits rather than additional cash wages because we consider these benefits to be essential to the health and economic welfare of our employees and their families.

Increasing the cost of benefits through amendments to the Tax Laws will mean that we will not be able to provide these benefits for our employees protection.

We are well aware of rising health cost and have taken appropriate cost containment steps to achieve savings.

We welcome the opportunity to express our views to the Subcommittee on Taxation and Debt Management on the importance of employee benefits.

We thank you for permitting us to express our views on this social issue of our nation.

Sincerely,

Alvin J. Conway
President

AJC:aok

CAUDILL SEED
AND WAREHOUSE COMPANY, INCORPORATED

1201 STORY AVENUE
LOUISVILLE, KENTUCKY 40206

PHONE (502) 583-4402
TELEX 204-106 CIL CSC LVL

July 30, 1984

Mr. Roderick A. DeArment
Chief Counsel - Committee on Finance
Room 219, Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 & 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

S. Forrest Caudill Jr.

S. Forrest Caudill

(1) I certainly feel as though a profit-sharing trust or a retirement benefit program of some type certainly helps employees on hourly wage to be able to maintain a standard of living after retirement.

(2) I also feel that the same thing is necessary for higher paid executives because of the standard of living being much higher, than the hourly employees. Very few executives are able to save enough dollars to retire comfortably.

(3) Without tax incentative to corporations as well as individuals, your profit sharing trusts & retirement plans would be almost non-existent.

(4) IRA's are good vehicles, but what per cent of the American public have enough surplus dollars, or would take surplus dollars, is available, and put in IRA rather than a boat, new automobile or perhaps remodeling their home?

(5) If you, for one minute think you can retire and live comfortably on Social Security payments, I suggest you should go to the Social Security office and find what your payments will be. Without some type of subsidy or side income, either employee benefits, retirement plan, or profit-sharing- trusts, your standard of living

CAUDILL SEED
AND WAREHOUSE COMPANY, INCORPORATED

1201 STORY AVENUE
LOUISVILLE, KENTUCKY 40206

PHONE (502) 583-4402
TELEX 204-106 CIL CSC LVL

Mr. Roderick A DeArment
Washington, D.C. 20510

Page 2

would be nulch.

(6) The United States incentative pland and retirement programs should never be touched, only improved upon. I firmly believe a housewife should be entitled to the same pay under an IRA as the husband.

Hoping that this letter will slow or maybe enev stop any motivation that may be in Congress, Senate or the House of Representatives, I remain

Very truly Yours,

S. Forrest Caudill

S. Forrest Caudill, Jr.

SFC/srb

STATEMENT OF The CBS/FOX Company IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at The CBS/FOX Company believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees: Medical benefit coverage is provided for all regular full-time employees, effective their first full day of employment, including 365-day hospitalization; Basic Medical coverage equal to 100% of reasonable and customary charges; Major Medical benefits equal to 80% of the first $2,000 and 100% of the balance after meeting a 100% deductible for an individual. $200 deductible for family coverage.

We also offer Dental coverage after 1 year's service which provides for two free dental check-ups and cleanings per calendar year and pays 80% for other services after a $25 deductible per individual, $75 per family.

Basic Life Insurance is purchased for each and every employee in an amount equal to two times their annual salary. We provide Accidental Death and Dismemberment Insurance with a maximum of $20.000 for each employee.

Long-Term Disability Insurance is available for purchase by all regular full-time employees at rates lower than if purchased on an individual basis.

A Pension Plan is established for new regular full-time employees and for all part-time/per diem employees who work 1000 or more hours per calendar year for CBS/FOX.

We offer Educational Assistance equal to 100% of tuition fees to all regular full-time employees with at least six month's service. Course or courses should be job or career-related.

At present time we have 359 or 94% of our employees covered by our Benefit plan. Of these 359 employees 207 are women, 12 minorities, 160 non-management staff.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valusble benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment.

Under consideration at this time, to help control sky-rocketing costs, we are looking at increasing the co-insurance rates, increasing the out-of-pocket amount for Major Medical costs and requiring mandatory second surgical opinion on specific surgical procedures. This second opinion is paid for in full by the medical benefit plan and failure to follow may result in reduction of benefit reimbursement. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommitte on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

DAVID PRYOR
ARKANSAS

RUSSELL SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
(202) 224-2353

ARKANSAS OFFICE:
3508 FEDERAL BUILDING
LITTLE ROCK, ARKANSAS 72201
(501) 378-6339

United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
SPECIAL COMMITTEE ON AGING
SELECT COMMITTEE ON ETHICS

August 6, 1984

The Honorable Robert Dole
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed is a two page statement from the Central Arkansas Library System that I would like to have included in the record of the fringe benefits hearings recently held by the Subcommittee on Taxation and Debt Management.

Thank you for your consideration of this request.

Best regards.

Sincerely,

David Pryor

DP:tcc
Enclosure

COPY

Central Arkansas Library System
Public Library • 700 Louisiana Street • Little Rock, Arkansas 72201 • (501) 370-5954

Taxation of Employee Benefits
Hearing Dates - July 26, 27, 30, 1984

Employee benefits are of particular value to the ninety-four employees of Central Arkansas Library System. We are opposed to any efforts by the U.S. Congress to tax these benefits which have traditionally been tax free as we believe that this kind of taxation will be particularly harmful to our employees.

Central Arkansas Library System is a public library funded by ad valorem taxes and appropriations from the Arkansas State Legislature. It is headquartered in Little Rock, Arkansas and serves a population of approximately 284,000 in Central Arkansas.

The staff of Central Arkansas Library System is predominately female and ranges in age from fifteen to seventy-four. All benefits are available to all permanent employees,, including part time employees. Health insurance is available, but optional, as the Library is only financially able to pay 75% of the premium. The pension plan is mandatory after one year of employment.

Because we are an underfunded public agency, salaries are below that of comparable jobs in the local economy. Many of our employees could not afford adequate health care without the assistance of the partially funded employee plan which not only makes health care more economical for the employee but also offers health care coverage to employee dependents

at a group rate. To tax this valuable benefit would further burden a group which already absorbs a disproponent share of hardship without significantly contributing to the overall social good.

The pension plan for our employees offers them an opportunity to plan for their future, non-working years. Voluntary contributions may be made to the fund above the percentage required. Both the employee's contributions and the Library's Contributions for the employee are invested at a good return. The interest earned goes up and down with interest rates from year to year. Interest earned by an employee's account is added to the employee's account to further build a retirement fund for them. All employees, including women, senior citizens, and men are treated equally in this plan and are offered the opportunity to save for their later years beyond the amount required. Again, taxing this benefit would be injurious to a group which is least able to provide for their families now while investing for their retirement years.

We believe that employee benefits are essential to the economic security of our workers, retirees, and their dependents and that all would suffer it these benefits did not exist. These programs should not be systematically dismantled in the name of greater tax revenues as the long term cost will be greater than any short term increase in tax revenue gained.

Respectfully submitted,

Rosemary S. Martin
Director

STATEMENT OF CENTRAL BANK OF THE SOUTH IN CONNECTION WITH THE HEARING OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS

JULY 26, 27 AND 30, 1984

The United States has had a long standing policy of encouraging the formation and continuing operation of employee benefit plans. The kinds of plans which have been formed over the years affect every phase of an employee's life and also provide for the economic security of a worker's family after death. The statutes which enable these plans to be formed are founded on the premise that extensive coverage of workers and their dependents is a desirable long term social goal.

The private sector has responded by initiating widespread coverage of its workers in retirement and health insurance plans, encouraged by the tax incentives given these plans. The employee benefit plans formed by the private sector have proven themselves able to cover the vast majority of the employees of those companies with plans.

Employee Benefit Research Institute studies have shown that pension coverage is broadly distributed over lower and middle income workers. In our own pension plan 1,442 participants out of 1,736, or 83%, earn less than $25,000 per year. In the same manner women comprise 80% of all participants - 1,390 out of 1,736. These employees rely on the benefits that are being set aside for them. The same statistics apply to the welfare plans offered by the bank.

The plans sponsored by Central Bank, which are fully participated in by its employees, do serve a primary social and economic purpose. Without these plans thousands of employees would be without a means to

protect themselves against castostropic illness or a total depletion of economic resources after retirement. Without these plans the employees would have to rely on public sector plans with a resulting increase in their cost.

The economic security granted to our employees by these plans has become an expected fact of their employment. The tax incentives given by the Congress to encourage the growth and development of these plans has been effective, and has resulted in plans which do protect employees of all income levels and both sexes. The existing regulations and statutes provide all employees with equal access to the tax incentives granted to our plans.

The generator for the widespread availability of employee health and retirement plans has been the use of favorable tax incentives. The removal of those incentives would reduce the availability of employee benefits of all types and at all levels of the work force. In our own case the elimination or reduction of the tax incentives would cause a reallocation of those benefit dollars with the resulting decrease in benefit coverage among our employees. Given the makeup of the participation levels of our existing plans these changes would greatly affect the lower paid employees and women.

Employee benefits are a part of the working life of all employees. Employees today expect their employer - public or private, union or non-union - to have an adequate and competitive benefit package. There is widespread belief that these benefits would and should not be taken away either by the government or by employers.

Any major legislative policy study of employee benefits must focus on the various types of employee benefits available. The types of employee benefits that are available to private sector employees are varied, yet each serve a specific goal, and each have heretofore been deemed in the public interest. Throughout our history the Congress, employers and employees have been concerned about their workers and their dependents. This concern has shown itself through the creation of an effective social contract among government, employers and employees.

The legislative review of employee benefits should keep in mind that benefits which are tax favored fall into two categories. Tax deferred benefits are generally retirement plans or other capital accumulation plans. Taxes on these plans are deferred to a later date. Other tax favored benefits are tax exempt and include health plans, child care and dental care. In addition to these categories caution should also be exercised to distinguish those benefits which are legally required, such as Social Security and unemployment compensation.

The Congress and this Committee should be concerned with the growth of employee benefits. However, the mere focusing of attention to the tax cost of these plans, to the exclusion of the social and long term public benefit of these plans would be tragic. Statistics indicate nationally - and our statistics specifically - that benefits of all types are reaching the vast majority of employees at all income levels. These employees would not have such broad based coverage in pension,

health, disability and life insurance benefits without the encouragement and commitment of public policy and the use of tax incentives. The continuation of benefit plans is important to our employees and to all employees. In many cases the existence of plans has provided the employees with the ability to face illness or to retire with an equivalent standard of living. Many of our employees express their appreciation of their benefit plans by saying that they could not provide for themselves should they not be participating in the plans.

Our system has in the past, provided for the retirement, medical, disability and other benefits of its work force through the cooperation of the public sector and the private sector. This benefit system has grown and has consistently covered more workers, despite continual adjustment of the tax incentives accorded the plans. Any drastic change or elimination of the tax incentives would result in substantially reducing benefit plans and would have the long term effect of increased dependence on public assistance which would exacerbate rather then help the country's current budgetory dilemma.

APPENDIX

WELFARE AND RETIREMENT PLAN STATISTICS OF CENTRAL BANK OF THE SOUTH

Welfare Plans

	Men	%	Women	%	Under 25,000 Yr.	%	Over 25,000 Yr.	%
Health Plan	519	33%	1024	67%	1270	82%	273	18%
Basic Life Insurance	571	28%	1479	72%	1758	86%	292	14%
Long Term Disability	571	28%	1479	72%	1758	86%	292	14%
Basic Accidental Health	571	28%	1479	72%	1758	86%	292	14%

Pension Plan

A. Number of Participants - 12/31/83 1736 - 87% of all employees

1. Sex:

   Male - 346 - 20%
   Female - 1390 - 80%

2. Number of participants earning less than $25,000 per year: 1442 - 83%
   Number of participants earning more than $25,000 per year: 294 - 17%

B. Participant Averages

		Entry Age	Attained Age	Past Service	Future Service	Total Service
Male	346	30.20	39.23	9.53	25.27	34.80
Female	1390	28.13	35.19	7.06	29.81	36.87
	1736					

CENTRAL
INSURANCE
COMPANIES
®

July 24, 1984

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

We urge you to retain the current tax favored treatment of employee pension and welfare benefits. We believe it is beneficial for employers to have the cost of these benefits as a tax deduction and non-taxable to the employee.

Sincerely,

G. D. Thatcher, CPCU
Treasurer

GDT:fj

CENTRAL STATES OF OMAHA

WILLIAM M. KIZER
president

July 20, 1984

The Honorable Robert Dole
141 Hart Senate Office Building
2nd & C Streets, NE
Washington, DC 20510

Dear Senator:

We understand that Senator Bob Packwood, Chairman of the Subcommittee on Taxation and Debt Management, has recently announced hearings to discuss the role of employee benefit plans. As a member of that Subcommittee, I assume you will be keenly interested.

We feel rather strongly that existing and future tax laws should continue to encourage employers, such as Central States, to help provide what has become accepted, usual and customary employee fringe benefits. By this we mean that the employer cost for such benefits should remain as deductible items to the employer and, generally, as non-taxable income items to the employee.

Usual and customary fringe benefits, to us, would include, but not necessarily be limited to, life, hospitalization and disability insurances, pension and other welfare benefits, employee parking, etc. (In this regard, we were extremely disappointed that under the recently enacted Tax Reform Act of 1984, benefits derived from athletic and fitness room facilities, together with lunch rooms, provided by an employer may well be considered as taxable income to employees.)

As mentioned above, such benefits have become widely accepted in business as a very valuable asset in attracting and retaining talented employees. Most assuredly, if the favorable tax status of these benefits are further eroded, drastic and negative results may well occur.

CENTRAL STATES HEALTH & LIFE CO. OF OMAHA WESTERN AT 96TH BOX 34350 OMAHA, NEBRASKA 68134 PHONE: (402) 397-1111

We are hopeful that our comments will be favorably considered by the Subcommittee.

Thank you very much.....

Sincerely,

Bill Kizer

William M. Kizer, President

WMK/jh

cc: Members of the full Committee and the Subcommittee.

STATEMENT OF THE CESSNA AIRCRAFT COMPANY

IN CONNECTION WITH THE HEARINGS

OF THE SENATE FINANCE SUBCOMMITTEE

OF TAXATION AND DEBT MANAGEMENT

ON THE SUBJECT OF FRINGE BENEFITS

JULY 26, 27, AND 30, 1984.

The Cessna Aircraft Company is one of the largest employers in Wichita and in the state of Kansas. Cessna is the leader in the general aviation industry, manufacturing and marketing world-wide a complete line of single-engine, multi-engine, turbo-prop and jet aircraft. The company is also in the fluid power business, primarily hydraulic components for the construction equipment and farm implement industries.

The majority of Cessna's 9,358 employees are located in Kansas; however, manufacturing facilities are also located in Ohio, Iowa and France, aircraft service facilities in Florida, California, New York, Kansas and Ohio. Additionally, employees of our various marketing and finance divisions and subsidiaries are located in nearly every state, including Alaska.

Cessna and the entire general aviation industry have experienced a severe business recession since late 1980, and business has not yet recovered to anywhere near previous levels (22,000 employees).

One of the major contributions to this recession and the absence of a recovery has been the rapid increase in aircraft prices, largely driven by huge increases in employee compensation and benefit costs.

Relative to benefit costs in particular, they now constitute 37% of payroll, 11.8% of sales and have increased by 350% in the last 10 years. Total benefit costs for 1983 were nearly $62 million, in spite of severely curtailed employment levels. Benefit costs per employee have risen from $400 to $1,671 in the last 10 years.

Within the benefits area, the single most expensive benefit cost area is Group Medical Insurance at nearly $13 million (even greater than social security, which ranks #2). Seventy-five percent of Cessna's employees are non-exempt, while the remaining 25% are exempt employees. Therefore, it is important to note that the majority of benefit costs are associated with hourly paid employees whose annual salaries average only $25,000 a year. Attachment #1 shows the breakdown of benefit expenditures for 1983 by type of benefit.

For the past year and one half, Cessna has been preparing for a number of major changes in its benefits structure for all categories of employees. Many of those changes being actively pursued involved section 125 and 401(k) of the Internal Revenue Service code. Not only are such changes demanded due to the changing make-up of the work force and the need for "flexibility" on the part of employees, but they are

absolutely essential ingredients to the Company's ability to control future benefit escalation. Both of these factors are extremely important to our employees and to our business position, and often get less "press" than the much discussed "tax" impacts of 125 and 401(k). We would encourage the Senate Finance Committee to be very sensitive to all of the issues affecting employees and employers alike in their consideration of tax changes affecting employee benefits for all of the reasons cited above.

Although, to date, we have not taken steps to materially control escalating benefit costs, we consider that move to be essential. Frankly, the many unknowns which have come into existence during the past few months since the IRS release concerning cafeteria plans and flexible spending accounts have been a major reason for our delay.

In particular, legislation which limits flexible benefits, particularly flexible spending accounts, seriously affects our ability to control health care costs. Currently, employees have no real incentives to avoid unnecessary medical treatment, nor to make medical treatment choices which are cost effective. Without the ability to present reasonable alternatives, our efforts will, very likely, be less effective than is necessary.

This is not only an issue at Cessna, but the need to contain health care costs across the nation has become a major issue in our economy, affecting all elements of the health care delivery system.

Certainly the tax ramifications of those issues are important, and we clearly understand that the tax base in this country cannot seriously be jeopardized. We do feel, however, that reasonable and prudent alternatives are available which will make possible dealing effectively with all issues involved.

Also related to the benefits issues are restrictions which are or may be applied to trusts under section 501(c)9 (VEBA's). Certain flexibilities are needed by large and small employers alike in order to provide and improve upon current benefits in a fashion that can provide for the cost effective funding and financial management of these programs. Again, prudent and reasonable regulations which prevent mismanagement but which do not unnecessarily restrict the operation of such trusts are possible and necessary in our opinion.

The facts are, Cessna pays all but a very small portion of benefit costs, both those which we choose to offer our employees, a well as those which are required by statute. As a result, we also have a very strong interest in holding down expenditures for tax-free welfare benefits. Of the many changes and improvements we are actively

considering, the benefits of those changes will be evenly disbursed among higher and lower paid employees. We anticipate that women as well as men will benefit equally, as well as older and retired employees. In many instances, women will in fact benefit to a greater degree, since many are second wage earners, have some benefit coverages under their husbands plan and would be able to eliminate duplicate coverage and fill in "gaps" in their own benefits with a plan that offers choices among many benefit alternatives.

In summary, careful and thorough consideration of all issues in the employee benefits area is strongly encouraged. Preoccupation with one or several major issues that have high visibility, while perhaps not fully evaluating all of the implications and results of various courses of action, could in fact cause serious damage to benefit cost containment and benefit improvement efforts.

Finally, the interest and concern for this entire issue by the Committee, as witnessed by the scheduled hearings and other activities, is deeply appreciated. This opportunity to give and exchange information is essential to selecting the proper course of action, and we would like to pass along our thanks for this opportunity to participate.

ATTACHMENT #1

November 1, 1983

BENEFIT ANALYSIS
TOTAL ACTUAL COMPANY COST FY 1983
ALL BENEFITS BY CATEGORY

Business Travel	$ 61,239
Group Insurance	$12,969,451
Health Exams	$ 115,591
Holiday Pay	$ 6,162,223
Retirement	$ 9,390,031
Service Awards	$ 56,515
Sick Pay	$ 4,335,016
Social Security	$12,184,036
Tuition Aid	$ 49,514
Unemployment Comp.	$ 4,368,105
Vacation	$ 9,765,574
Workers Comp.	$ 2,154,967
Total	$61,612,262

Chamber of Commerce
of the United States
1615 H Street, N.W.
Washington, D.C. 20062

NEWS RELEASE

FOR IMMEDIATE RELEASE
Friday, July 27, 1984

Contact: Thomas Love
(202) 463-5682

EMPLOYEE BENEFIT PROGRAMS IN GOOD SHAPE AND THE TAX POLICY ENABLING THEM SHOULD BE MAINTAINED, U.S. CHAMBER TESTIFIES

WASHINGTON, July 27 -- The U.S. Chamber of Commerce told Congress today that the nation's system of voluntary employer-sponsored employee benefit programs is in good shape and that long-standing tax policies encouraging these programs should not be changed.

Frank L. Mason, president of Mason Corp. of Birmingham, Ala., spokesman for the Chamber, told the Senate Subcommittee on Taxation and Debt Management, "Our recommendation to you is that if it isn't broke, don't fix it.

"If it's working -- and we believe it is -- don't tinker; but if you must tinker, then simplify the rules and strengthen the incentive for employers to take on the obligation of sponsoring employee benefit plans," he continued.

Among the benefits provided by the current employer-sponsored system of employee benefit programs mentioned by Mason were:

- Substantial risk protection for more than 30 years. About 150 million participants and beneficiaries are covered by programs maintained by more than one million employers.
- A less extensive and less costly Social Security system and elimination of the need for a broadly-based national health system.
- A sense of employee affiliation with the employer which provides opportunities for increased productivity.
- An important source of savings and investment.

He pointed out to the subcommittee that less than one third of the money involved in employee benefits is tax-favored. The rest is either taxed at the time it is paid by the employer or, in the case of pensions, taxed when the benefit is received by the employee.

Accompanying Mason during the session was Donald C. Alexander of the law firm of Morgan, Lewis & Bockius, a former commissioner of the Internal Revenue Service. Both men are directors of the U.S. Chamber of Commerce.

(84-182)

###

North Charleston Sewer District

1000 ELGIN STREET CHARLESTON HEIGHTS, S.C. 29405

Telephone (803) 722-2657

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg., Rm. SD-219
Washington, D.C. 20510

RE: Hearing - Taxation of Employee Benefits
Dates: July 26, 27, and 30, 1984

Dear Sir:

Please regard this letter as an official statement to the Senate Finance Subcommittee on Taxation and Debt Management, on behalf of the North Charleston District and the North Charleston Sewer District, to be included in the record of the hearings.

The North Charleston District/North Charleston Sewer District are Special Purpose Districts (political subdivisions of the State of South Carolina) located in Charleston, S.C. Both Districts share the same administrative staff but are separate entities created to serve the citizens of unincorporated areas of Charleston County.

The North Charleston District is comprised of the Fire Department and Public Services and employs approximately 95 persons. The North Charleston Sewer District is a primary and secondary wastewater treatment facility employing 92 persons.

As public employers, the North Charleston District/North Charleston Sewer District is particularly sensitive to the issue of a tax-exempt benefit package for all employees. Both Districts offer employee benefit compensation at District expense. These benefits are in the forms of

health, life and dental insurance as well as paid holidays, vacation, sick leave and retirement. The Districts offer the same benefit compensation to all employees and administration of benefits is equitable without regard to position or sex.

Wage compensation for public service employees, traditionally, is significantly below that of private industry for the same type of job. The North Charleston District and North Charleston Sewer District are unable to compete with private sector employers on the basis of wage compensation. The salaries of both Districts are considered low, even for the demographic area, and employees, in general, would be expected to make an additional sacrifice if benefit compensation was taxed. An employee-paid benefit program would be cost prohibitive to the majority of District employees and basic needs would not be met. The economic security of employees, retirees and their dependents would be seriously jeopardized.

Because of its public status, both Districts rely heavily on benefit compensation which is both free and attractive to its employees. Without the ability to offer a tax-exempt benefit package the problem of recruiting and retaining qualified employees for all positions would be severe.

Under our present benefit arrangement, the Districts can remain responsive to the needs of its employees, as it has for many years. The employee benefit system as it exists is far superior to any government program that would be designed as a replacement. Taxation of benefits for revenue purposes would create a bigger problem for public employers and employees than the benefits from the revenues could produce.

The North Charleston District/North Charleston Sewer District is committed to the principle of providing the best possible service to the citizens of our District at the lowest possible cost. To provide this quality of service the District must be able to retain and attract qualified employees and the ability to do so rests with the benefit compensation incentive.

Therefore, the North Charleston District and the North Charleston Sewer District oppose taxation of employee benefits.

Respectfully,

NORTH CHARLESTON DISTRICT/NORTH CHARLESTON SEWER DISTRICT

Allen T. Ramsay
District Manager

ATR/sr

cc
W.D. Blalock, Senior Vice President
Pilot Life Insurance Company

CHARLESTON AREA MEDICAL CENTER

1210 Elmwood Avenue • P. O. Box 1547
Charleston, West Virginia 25326

July 24, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator DeArment:

We hope the following descriptions and explanations of the benefit plans offered to the employees of Charleston Area Medical Center will help provide background information and insight to Senator Packwood and the members of the Senate Finance Committee. We feel that more and more our employees depend upon us to provide benefits that are as comprehensive and as affordable as they want or need. In our programs we have tried to address every major concern for health care and protection of present and future income for our employees. We urge you in any consideration of tax liability or benefit change that you carefully weigh the impact of those changes on the participants in programs like ours.

BACKGROUND: Charleston Area Medical Center is a 934 bed facility with two hospital locations in Charleston, West Virginia. We have 3446 permanent employees and are the third largest non government employer in the state of West Virginia. Our employee population is about 81% female, has an average age of approximately 36, and involves people from numerous sociological, educational, technical and non technical backgrounds. With the exceptions of group life insurance and accidental death and dismemberment insurance, all of our plans are self insured and funded by contributions from CAMC and the participants.

LIFE INSURANCE PROGRAMS

BASIC GROUP LIFE: CAMC contributes the total premium necessary to provide group life insurance equal to one times the annual pay for all full-time and permanent part-time employees who are employed 1 month or more.

SUPPLEMENTAL GROUP LIFE: Each employee eligible for the basic group life can choose to purchase an additional amount of group life insurance equal to one or two times annual pay. At the present time this insurance costs .11 per $1,000 per month and we have 80% of our employees participating.

ACCIDENTAL DEATH AND DISMEMBERMENT - Our fulltime and permanent part-time employees of 1 month or more have the opportunity of purchasing accidental death and dismemberment insurance in any $10,000 amount up to $250,000. This plan affords protection to the employee for .35 per $10,000 per month presently. An employee may cover himself, his spouse for 50% of his benefit, and his children for 15% of his benefit for a cost of .50 per $10,000 per month presently. Even with no participation in the cost of this program by CAMC we have 84% participation.

DEPENDENT LIFE INSURANCE: Another program offered for our employees with families, that simply provides $5,000 in the event of the death of a spouse and $2,500 in the event of the death of a child. The program is funded entirely by participants who each contribute $2 per month. Presently 50% of our employees (approximately 85% of our employees with dependents) are participating.

RETIREMENT DEATH BENEFIT: Any employee who retires from CAMC is provided with a $2,500 death benefit payable to his or her named beneficiary. This plan is funded entirely by CAMC.

SUMMARY

CAMC strongly emphasizes good life insurance and accidental death and dismemberment insurance for all our employees and their families. We feel the dependent life and retirement death benefit help fulfill needs when employees may not have the foresight to provide their own individual protection. The other programs will definitely help the family of our employee who dies. Our employee participation in our programs where no cost is shared by CAMC is very high especially when you consider over 60% of our employees are married, many to spouses with other employers who may provide very good benefits. The high participation by our employees shows their concern for their families and their support for the programs we offer.

HEALTH CARE

HEALTH INSURANCE: CAMC offers a very comprehensive health care program to its full time and permanent part-time employees of one month or more. Briefly the plan pays for all charges in-patient and out-patient incurred at CAMC facilities (and we can provide treatment for nearly every affliction); UCR charges by physicians while the participant is at our facility; 80% of Doctor's charges (after $100 individual and $200 family deductible) at his office or the participant's home; after the deductible, 100% of prescriptions issued at CAMC and 75% outside of CAMC; and 50% of psychiatric charges outside of CAMC. We have a lifetime benefits maximum of $500,000 per person with $50,000 maximum in the psychiatric area. For participants who voluntarily choose to go to another institution there is an additional $250 per visit and the remainder of the hospital and the Doctor's charges are paid at 75%. We attempt to maintain a cost sharing approach for the plan whereby CAMC pays 75% and participants 25%. At the present time employees pay $15.00 per month for single protection and $39.00 for family.

DENTAL INSURANCE: CAMC has a separate program of dental insurance that provides scheduled payments for most dental procedures. The plan pays 100% of preventative treatment and after a $25.00 single and $75.00 family per year deductible, 80% of most other procedures and 50% of orthodontic for children up to the scheduled amounts. There is a $750.00 per year per person maximum and a $750.00 lifetime per person orthodontic maximum. CAMC and the participants share the cost of this plan on a 50-50 basis. Presently an employee pays $4.00 per month for single and $8.00 for family.

SUMMARY

Our heatlh care plan strongly emphasizes the use of our own facilities which are the best in this region. We provide substantial protection for our employees and their families at a very reasonable cost. At the present time 88% of our employees participate in these plans.

INCOME PROTECTION

CAMC offers one plan (beyond worker's compensation) to protect the income of those employees who may become permanently and totally disabled prior to age 65. The plan begins paying a monthly amount equal to 60% of pay following a disability that lasts 90 days or more, and after all accrued sick days have been expended. An employee is awarded a sick day for each month of service and may accrue up to 90 of those days. The income protection benefit continues until the latter of age 65 or after 3 years of payments. The benefits are offset by disability benefits from Social Security, Worker's Compensation or other mandatory plans. A full-time or permanent part-time employee may participate after 6 months of service if he pays a premium equal to 25 cents per month for each $1,000 of his annual income. This contribution represents approximately 25% of the total cost of the plan and CAMC pays the difference. At the present time 90% of our employees participate in this plan.

RETIREMENT AND SAVINGS PLANS

1. BASIC RETIREMENT - CAMC has a 401(A) Deferred Profit Sharing Plan for all full-time and permanent part-time employees who are at least age 21 and complete 1 year of service. The plan requires a contribution of 3% of compensation up to the Social Security Covered Compensation level for the current year and 6% for compensation earned above that level. All contributions to this plan come from CAMC. Full vesting for participants occurs at retirement, death, total and permanent disability and after 5 years of service. The plan replaces a defined benefit plan that provided step rate accruals of 1 1/2% of basic annual compensation each year. This plan was frozen and will still pay benefits to approximately 2,000 employees when they reach retirement age.

2. SUPPLEMENTAL RETIREMENT MATCHING PLAN - CAMC provides a 403(b) vehicle designed to encourage savings for retirement. Under this plan CAMC will match an employee contribution of either 1% or 2% of his pay. The plan is fully vested immediately. It is available to all full-time and permanent part-time employees who are age 21 and have completed at least a year of service. At the present time 60% of our employees are participating. By the way, this plan replaces a 401(k) plan that was established in July 1982, and terminated December 1983 when a decided drop in participation was anticipated due to CAMC's reentry into Social Security as of January 1, 1984.

3. TAX SHELTERED ANNUITY - This is another older 403(b) plan funded entirely by employee contributions. At present 10% of our employees participate in this plan.

4. SICK PAY RETIREMENT - In 1984 CAMC established a policy that it will pay a retiring employee for all unused sick days at the date he retires. This benefit may be a single sum or a monthly annuity purchased through an insurance company depending upon the amount of money available. It is another way of rewarding employees for service as well as increasing prospective retirement income.

SUMMARY: We have determined that the combination of Basic Retirement and Supplemental Retirement Matching Plan exercised at the 2% level can provide a monthly income at retirement for most participants of 40% or more of their income in addition to Social Security. For those participants who choose to contribute to the TSA as well, their benefit may be significantly higher. By utilizing the defined contribution approach to all our plans we offer the participants the opportunity of participating in current interest rates, and thereby being in a better situation to cope with inflation as it affects their income at the time of retirement. Our fairly low average age is another strong influence on deciding upon the defined contribution route. The longer accumulation period allows compound interest to expand benefits even more favorably for the employee.

OTHER BENEFITS

In addition to all of the above CAMC offers several self help benefit programs.:

1. A credit union that offers a number of savings and loan programs.

2 U.S. Savings bonds purchase through salary deduction.

3. Educational Assistance to employees who achieve passing grades in courses whether or not job related.

CONCLUSION

As you may expect with the wide variety of benefits offered by CAMC and with the requirement that an employee must contribute to participate in most plans (as well as choose his participation level), we have numerous variations of combinations of benefits on our people. We try to further stimulate as much participation, especially in those areas that are most needed, by taking advantage of the use of pre tax participant contribution dollars as permitted under code sections 125 and 403(b). We feel very strongly that the denial of the use of these pre tax contributions would influence our employees to reduce or even subtract benefits that are necessary for the present well being of themselves and their families and for their future retirement security. In an industry which is coming under more and more governmental control and which, of necessity, must emphasize service to the community even above hope of monetary return in many situations; we must be in a position to offer our employees an encouraging benefit package. Remember we can offer employment to a number of people in the community who could swell government aid programs. We must provide these employees not only with current operating capital, but protection now and in the future. When we are restricted from keeping pace with other more profitable industries we must be able to offer incentive to those employees whose loss would not only affect our organization, but the whole community as insofar as health care is concerned. We encourage you to not consider short term increased monetary measures which could have an extensive long term destructive effect on our employees and our community.

Sincerely,

Phillip H. Goodwin
Executive Vice President

PHG/cfr

CHATHAM MANUFACTURING COMPANY
ELKIN, NORTH CAROLINA 28621
TELEPHONE (AREA 919) 835 2211

PETE W. GLIDEWELL
PRESIDENT

10 August 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

P. W. Glidewell

Powell W. Glidewell, III

PWG,III:gws
Enclosure

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management by Powell W. Glidewell, III, President, Chatham Manufacturing Company, Elkin, North Carolina.

As I understand it the government is investigating the possibility of taxing essential employee benefits such as family medical insurance, life insurance, disability, and retirement.

Chatham's position on this matter is that this would have severe ramifications to the average working person, the economy, and to this country's ability to compete on an international basis. With the ridiculous rise in health care cost, to again raise the cost by taxing the insurance would further burden our employees. To steal money from present retirement plans would put further burdens on social security. Please let private enterprise administer retirement where possible. We can do it so much more efficiently than government. Life insurance benefits from a corporation tend to be minimal and just cover expenses. Disability during key working years is the hardest burden to bear and if you make it more expensive than it is now, it would be tragic.

This concept of reducing the support of tax exemptions for essential benefits will only cause more government involvement in order to provide them and end up costing more than you will collect.

Please do not penalize further the working force that is paying your bills by taxing essential family benefits.

CHEMICAL
FINANCIAL CORPORATION
127 TOWNSEND STREET, P.O. BOX 569
MIDLAND, MICHIGAN 48640
(517) 631-3310

August 3, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Enclosed please find the written statement of our company, Chemical Financial Corporation, in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26,27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

Herbert E. Hardy
Employee Benefits Co-ordinator

Enc:

Statement of Chemical Financial Corporation
in Connection with the Hearings
of the Senate Finance Committee on Taxation and Debt Management
on the Subject of Fringe Benefits
July 26, 27 and 30, 1984

Chemical Financial Corporation is a bank holding company with ten affiliate member banks and a data service providing banking and trust services through 46 offices in 15 counties located throughout Mid-Michigan. Out of a total of 529 employees, 508 (or96%) are full-time salaried employees and are eligible to participate in all benefits provided by the corporation. 75% of the work force is made up of women as is 30% of our management team. Women play an important part in the growth of our corporation making up 76.47% of Junior Management and 66.67% of Management Trainees.

The ability to offer an attractive benefit program at a reasonable cost effects both the ability of the corporation to attract and retain highly qualified personnel and the profitability of the corporation in the highly competitive banking industry.

We at Chemical Financial Corporation believe that it is our responsibility as an employer to meet the basic needs of our employees for financial security. Accordingly we offer the following benefit package to all full-time employees:

The Chemical Financial Corporation Emplcyees' Pension Plan is a defined benefit plan in which the employees' benefit at normal retirement age is equal to 60% of final average earnings, reduced by 50% of the primary Social Security Benefit in effect upon retirement,

times the ratio (not to exceed 1.0) that Credited Service bears to 30 years. A variety of options as to when and how benefits are paid has been provided to meet the needs of a diverse work force. Because substantially 96% of the work force is eligible to participate in the plan with contributions being made by the employer, there is no discrimination in favor of the highly paid.

The Chemical Financial Corporation Group Insurance Plan for Employees is a fully insured comprehensive plan in which employees share in the cost with the employer through the use of family deductibles and co-payments. The plan provides health and dental benefits (including orthodonture) for retirees, employees and their families. The comprehensive plan has many incentives built into it which reward participants for becoming wiser consumers of health services. Some of the benefits which have been added or improved include: Ambulatory Surgical Center Services, Convalescent Care, Home-Health Care, Hospice Care, Services by a Nurce Practitioner or Nurse Midwife, Treatment for Mental and Nervous Disorders and Pre-Admission Testing.

Chemical Financial Corporation provides all full-time salaried employees Basic and Supplemental Life Insurance, Accidental Death and Dismemberment Insurance, Long Term Disability Insurance and income protection under a Short Term Disability Policy.

Much has been said about health care and cost containment. A majority of employees, the consumers of health care, think about

health insurance in the same manner they think about automobile insurance. That is, people believe premium is paid and if claims should be greater than the premium collected, the insurance company assumes the risk. When a large employer purchases health insurance for its employees the cost will be, the total cost of claims plus a retention charge for the insurance company to handle the claims. When a corporation's claims exceed the amount of premium, that excess amount may be added to the next years premium. This added cost in addition to inflation in medical costs (which has been running from 15-30% per year) is causing health insurance costs to the employer to skyrocket. One of the first steps in cost containment is to communicate to employees what has been happening to health care costs and how those costs are paid.

We are well aware of the continuing problem of rapidly rising health care costs. Since those costs are reflected in the claims we and our employees must pay, we are vitally interested in cost containment. In addition to incentives in the health plan to become a wiser consumer of health care services, Chemical Financial Corporation embarked on an education program to make employees more aware of health care alternatives.

The education program starts with a copy for each employee of Dr. Donald Vickery's book "Taking Care of Yourself". This book provides employees information on when and how to talk to a doctor,

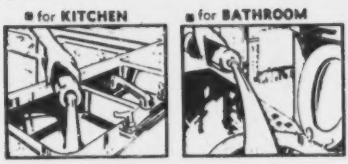
information on injuries and illnesses which you may be able to treat yourself and an emphasis on lifestyle and wellcare. Employees also receive a monthly newsletter dealing with topics in insurance and health care. Along these same lines, employees view quarterly video tape presentations provided through The Travelers Insurance Company. Subjects vary from information on things insurance can do for the employee (Second Surgical Opinion) to things employees can do for themselves (Exercise). The result of this educational effort is that employees have more knowledge about insurance and how it works. Employees also benefit from the emphasis on wellcare and lifestyle. We feel this approach to education along with a benefit plan which encourages employees to become wiser consumers not only reduces claims but increases employee productivity and morale.

The benefits discussed here have been made available on an equal basis to all full-time salaried employees (96% of the work force). We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a more favorable rate than could employees on an individual basis. This factor added to the tax incentives provided by existing law allows us to provide valuable benefits at a price we, the employer, can afford. Increasing the costs of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

AMAZING

LIQUID FIRE

LONG DISTANCE



August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consisting with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Emplyee Fringe Benefits held on July 26,27 and 30 by the United States Senate Finance Committee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

J. R. Whitlock
President

CHEMICAL WASTE REMOVAL, INC.

P.O. BOX 14226 • 6216 STRAWBERRY LANE • LOUISVILLE, KY. 40214
(502) 361-3655

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26,27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Mangement. By J. R. Whitlock.

Being a small business I take exception to the concerns that private pension plans as created within the laws are not basically beneficial to the employees. Not to be denied that the higher paid capture a higher percentage, but my four emplyees didn't object and were elated when I instituted a defined benefit plan recently. They were here fifteen to twenty years with only the hope of Social Security for retirement. They were not participating in IRA because what they had at the end of a year went for a car or room addition or any other immediate need. They do not begrudge my percentage of the fund considering they are getting their fair share. Its better than what they had before the plan-nothing.

These plans have social and economic value. Social security alone will not maintain the standard of living, and was not planned to, it has to be supplemented. Acompany pension plan provides the addition and if they are real frugal they can save for IRA, but few do. IRA,I would venture to say is enjoyed by the middle class or above, they have the extra money to make this investment, not the blue collar worker. According to the news Social Security is destined to be in constant trouble for funding. If this is accurate why take away the private funding that exists for the small business employee?

If you feel their is no grass root support for these pension plans its because the employees do not know your trying to take it away from them. Asurvey would prove otherwise.

The successful business may take a larger percentage but you have to remain a profitable business to have any fund at all. The percentage of take is equal to the benefit and contribution and is taxed later when it comes out. I realize maybe at a lower tax, but this benefits the employee more than the highly paid employer, in my opinion. You being of higher pay also will handle your income better thru the years to stay your standard of living to remain in a higher tax bracket, so this concern is of little value.

Concern with the national debt is more important, reduce that, maintain inflation and preserve the economic future for the employee and he can better enjoy his retirement money that he receives with no contribution. This to me is more worthwhile and of value. Because a few incidents of what may appear as injustice does not prove out when the total situation is surveyed. The government will get the tax when the money comes out to the employee, and they get to borrow the money rather than take from a workers future twilight years. If business does not provide for workers retirement does the government have to assume the responsibility? I don't think it should, and I consider myself govenment or a taxpayer.

Chevron Corporation
225 Bush Street, San Francisco, CA 94104

C.H. Mackdanz
Manager
Benefits Staff

August 10, 1984

Finance Subcommittee on Taxation and Debt Management Hearing On Fringe Benefits, July 26, 27 and 30, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

Chevron Corporation appreciates the opportunity to present its views to the Subcommittee to be included in the printed record of the hearing on fringe benefits held July 26, 27 and 30, 1984.

Chevron Corporation, exclusive of the recent Gulf acquisition, currently employs about 30,000 people in its domestic operations and there are about 12,000 Chevron retirees. Chevron has a long history of providing the same benefits programs for all of its oil pattern employees without regard to pay or job level. The attached exhibits help illustrate the broad range of our programs and the high level of employee participation. Chevron is a supporter of affirmative action and equal opportunity. Employee contribution rates and benefit level are not dependent on whether the employee or other family members are male or female. This has been true in Chevron's plans even before equality was legislated. Chevron's current employee population is about 79% male and 21% female. Both females and minorities are well represented in all classifications and all similarly situated employees enjoy the same benefits.

Chevron feels that the current tax laws which encourage private sector benefits programs have helped the employee and the employer provide the means :

- to provide for retirement years through pension plans and savings/thrift/profit sharing plans.

- to protect survivors through employee life insurance.

- to cover extra ordinary medical and dental costs (not first dollar coverage).

- to provide income protection through short and long term disability plans.

The development of these benefits programs has been enhanced by the support the government has provided through the tax laws. This support has helped channel the employees' attention towards the more essential programs. For example, the tax deferral on the company contributions towards pensions and savings/thrift/profit sharing helps the employees focus on preparing for their long range needs. Without that support they might demand higher immediate spendable income that would cause inflation; reduce the formation of capital for investment via plan trust investments; and create greater reliance on government provided programs such as Social Security.

Incentivies that encourage employers to provide fringe benefits can have a profound effect on compensation planning. Any total compensation package must allocate labor costs between wages and benefits. The net after-tax income in terms of wages and benefits is of paramount interest to the employee. The net after-tax cost is vital to the employer when establishing these plans. These two concerns have to be creatively mixed to optimize the compensation package. We believe that removing or limiting the current tax incentives will increase pressure by employees to spend benefits dollars for direct wages.

Salary reduction programs such as those permitted under IRS section 401 (k) and section 125 are helpful, particularly to the lower paid employees. Many lower paid people do not itemize their deductions on a form 1040. Therefore salary reduction mechanisms are a very effective way for these lower paid employees to realize the benefit of such tax incentives. These incentives also offer the increased flexibility of having employers develop benefit programs rather than trying to accomplish the tasks through government programs. Employers design plans to fit the demographics of their employee groups. Instead of massive programs for the needs of an "average person," thousands of smaller tailor-made programs do a more efficient job. Tax incentives for employees provide maximum benefit value at reasonable cost. They allow the government and private sector to compliment each other's efforts in a very efficient manner. Many of Chevron's plans require the employee to share in the cost of providing benefits. Properly constructed incentives can encourage employees to participate and carry their share of the benefits burden.

We believe that limiting incentives will require higher employer and/or employee contributions to provide the same benefit and the benefit may not be as acceptable to the employees. They would want the flexibility to opt in or out of plans thus increasing the cost and complexity significantly. This is not the most efficient approach nor does it provide the best value for the employee. As this occurs, employees may become disenchanted and consider purchasing benefits on their own. In most cases employees cannot purchase the fringe benefits on their own as economically as they can be provided by a group. Furthermore many employees lack the expertise to properly identify their benefit needs; they rely heavily on trust that the company implements plans that are in their best interest.

As Congress considers the implications of tax incentives for benefit programs, we ask that the following specific issues be considered.

- Settle on one definition of highly compensated employees that may be applied regardless of how many employees sign up for a benefit (as long as it is offered to all regular full time employees) and without regard to how benefits are ultimately paid out. We think the IRS Code section 105(h) rules come close to being fair yet simple to administer.

- The most appropriate type of incentive control is a percentage of income rather than a fixed dollar amount with certain maximums related to the amounts that can be deducted from form 1040. A percentage of income would relate costs to areas of the country since wages differ by area. A fixed dollar amount may be too generous in some areas and insufficient in others. Furthermore a percentage will keep pace with inflation or deflation without further indexing. The relationship to form 1040 deduction maximums should be maintained to help the lower paid people who are unable to itemize income tax deductions.

- Tax incentive provisions issued without clear rules and duration discourage employers from providing these benefits to a broad cross section of employees. The IRS section 125 controversy clearly illustrates the confusion that can be created by a lack of rules. Only recently were rules provided after a long period of uncertainty. For large employers the costs of designing and implementing plans are very high. If the rules are not clear, are subject to change, or will expire within a few years, it may not be cost effective to introduce new plans. On the other hand, as discussed earlier, private industry designing for their own demographics can provide very efficient benefits mechanisms.

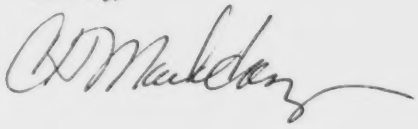
- Tax incentives that encourage employers to provide fringe benefits should continue to require non-discrimination in application in order to qualify for favorable tax treatment. Chevron's approach to welfare plans is that all employees benefit equally. However, when current incentives are applied to Chevron's Annuity Plan and Stock Plan, relative benefit levels already favor the lower paid employee. When combined with Social Security benefits

the lower paid employees are able to retire with incomes, measured as a percent of their final active-employment take-home pay, greater than that of higher paid employees.

- Properly constructed tax incentives for employer-provided fringe benefits do impact the individual's choice of employment because many people want the security of knowing that their needs are being met by their employer programs; they don't have to provide for themselves; and they don't have to pay the high taxes associated with government provided programs.

The Chevron Corporation wishes to thank you once again for this opportunity to express our views. The Chevron Corporation also wishes to take this opportunity to thank the members of Congress for your historical interest in and support for private sector employee benefits. We think that the private sector of our economy can do the best job if given the opportunity and incentive.

Sincerely,



Attachments

cc: Mr. J. N. Sullivan
Vice President, Industrial Relations
Chevron Corporation

Company Name Chevron Corporation

[X] All Employees # 31,103
[ ] Salaried Only # _____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $ ($0,000)	Per Employee $
Total Benefits	$ 469,890	$ 15,662
Legally-Required Employer Payments	77,135	2,480
Social Security	64,018	2,058
Unemployment Compensation	5,915	190
Workers' Compensation	7,103	228
Other Payments	99	3
Discretionary Taxable Benefits	117,054	3,763
Time Not Worked	116,453	3,744
Rest Periods	-	-
Other Taxable Benefits	601	19
Discretionary Tax-Favored Benefits	275,701	9,419
Defined Benefit Pension Plans	95,225	3,062
Capital Accumulation Plans	64,544	2,075
Disability Plans	20,067	645
Group Health and Life Insurance	76,638	3,018
Active Workers	65,240	2,097
Retirees	11,398	921
Other Tax-Favored Benefits	19,227	619

Company Name Chevron Corporation

☒ All Employees # 31,103
☐ Salaried Only # _____

TABLE 2

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaried	Employer Payments as Percent of all Benefits
Total Benefits	41.8%	100%
Legally-Required Employer Payments	6.8	15.8
Social Security	5.7	13.1
Unemployment Compensation	0.5	1.2
Workers' Compensation	0.6	1.5
Other Payments	-	-
Discretionary Taxable Benefits	10.5	24.0
Time Not Worked	10.4	23.9
Rest Periods	-	-
Other Taxable Benefits	.1	.1
Discretionary Tax-Favored Benefits	24.5	60.1
Defined Benefit Pension Plans	8.5	19.6
Capital Accumulation Plans	5.7	13.2
Disability Plans	1.8	4.1
Group Health and Life Insurance	6.8	19.3
Active Workers	5.8	13.4
Retirees	1.0	5.9
Other Tax-Favored Benefits	1.7	4.0

Company Name Chevron Corporation

/X/ All Employees # 30,443
/ / Salaried Only # _____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 1984 *

		Defined Benefit				Employer Capital Accumulation				401(k)			
		Participate		Vested		Participate		Vested		Participate		Vested	
		#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999		179	.6	2	.02	12	.05	2	.02	10	.05	2	.02
10,000- 19,999		3,046	10.0	200	2.0	1,581	6.2	190	1.9	1,305	6.1	144	1.7
20,000- 49,999		22,675	74.5	6,776	67.3	19,219	76.0	6,714	67.2	15,766	73.7	5,435	63.7
50,000- 99,999		4,286	14.1	2,831	28.1	4,234	16.7	2,827	28.3	4,053	19.0	2,701	31.7
100,000 or more		257	.8	253	2.5	255	1.0	251	2.5	251	1.2	247	2.9
Total	30,443		100%	10,062	100%	25,301	100%	9,984	100%	21,385	100%	8,527	100%

*Data is annualized to project 1984 availability.

Company Name Chevron Corporation

☒ All Employees # 30,237
☐ Salaried Only # _____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1984*

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999**	-	-	___	___	-	-
10,000- 19,999	1,842	8.4	___	___	1,145	13.8
20,000- 49,999	16,465	75.1	___	___	6,249	75.1
50,000- 99,999	3,376	15.4	___	___	913	11.0
100,000 or more	231	1.1	___	___	16	.1
Total	21,914	100%	N/A	100%	8,323	100%

*Data is annualized to project 1984 availability.
**Included in $10,000 - $19,999 catagory.

Company Name Chevron Corporation

☒ All Employees # 31,103
☐ Salaried Only # _____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# 11,295	$4,430,323.	1983
Defined Benefit Plan Retirees Survivors in Pay Status	# Included above	$ Included above	1983
Defined Benefit Plan Vested Separated	# N/A	$ N/A	1983
Capital Accumulation Plan Retirement Age Distributions	# Included below	$ Included below	1983
Capital Accumulation Plan Termination, Distributions Withdrawal	# 3,550	$163,816,928	1983
Retiree Health	#12,371	$ 7,400,000	19 83
Retiree Life	# 9,429	$ 3,997,572	19 83
Retiree Other	# -	$ -	19 -

Chloride Incorporated

3507 South 50th Street
P.O. Box 899
Tampa, Florida 33601
Phone (813) 248-3161
TLX 52-715

1984 AUG -3 AM 10:

31 July 1984

CHLORIDE

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D.C. 20510

Dear Senator:

We understand that the Senate Finance Committee is considering the tax policy issues that pertain to employee benefits.

Because this is so important to our employees, Chloride Incorporated would like to express its support for the employer-sponsored benefit plan system that has developed in the United States with the encouragement of the federal government.

It is our view that the current system is the most efficient and cost effective way for delivering economic security to our employees. Our pension, life insurance, disability and health plans provide needed benefits to all of our employees -- regardless of their salary or wage level.

The growth of these plans has been encouraged by favorable federal tax treatment and the plans have, in turn, saved the federal government substantial sums of money which would otherwise have been necessary to fund and operate government welfare programs.

If federal tax policy ceases to encourage employee benefits, we believe that additional strain will inevitably be placed on public institutions and programs ranging from community hospitals to the Social Security retirement and disability income system.

There seems to be a widespread bias against employee benefits because they are perceived as unfairly discriminatory in favor of the highly compensated executive. This is just not the case in Chloride Incorporated or the vast majority of public companies.

Senator, we urge you to support a federal tax policy that fosters employee benefits. We believe it is the best approach for our country, our employees and our company.

Sincerely yours,

CHLORIDE INCORPORATED

D. M. Burns
Vice President Finance

DMB:sd/55

July 24, 1984

Mr. Robert A. DeArment
Chief Counsel, Committee in Finance
Room 219 - Durksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

We understand that Senator Robert Packwood, Chairman of the Senate Finance Committee's Subcommittee on Taxation and Debt Management, is to begin holding hearings in late July on Employee Benefits.

With the present trend of large budget deficits in our country and the economic havoc they cause, we know that Congress is seeking ways to increase federal revenues. However, it is our sincere opinion that removing favorable tax treatment from Employee Benefits to generate additional revenues would be a very serious mistake.

Choctaw -like most medium size businesses in the United States- provides group medical benefits and retirement benefits for its employees. All the cost of our retirement plan and most of the cost associated with our medical plan are paid for by the company.

If Employee Benefit Plans lose their favorable tax treatment, many companies may be forced to reduce their levels, discontinue some of them altogether, or pass more of the cost along to the employees.

Congress has encouraged employers over the years to set up and administer benefit plans for their employees by protecting these plans from ever increasing tax levels. Let us hope they do not now overlook the great public good accomplished by broad Employee Benefits and instead focus only on the revenues to be gained by removing the favorable tax treatment they have traditionally received.

We are in favor of reducing our federal deficit but we believe that removing the favorable tax treatment from Employee Benefit programs would be a very, very serious error in judgement.

Sincerely,

Frank Jones
Vice President - Personnel

FJ:jl

PENSION FUND of the CHRISTIAN CHURCH INDIANAPOLIS, IN 46204
(Disciples of Christ)
200 BARRISTER BUILDING, 155 EAST MARKET STREET (317) 634-4504

August 6, 1984

Submitted as part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

By Lester D. Palmer, President of the Pension Fund of the Christian Church (Disciples of Christ).

The Pension Fund is one of the General Administration Units of the Christian Church (Disciples of Christ). The Pension Fund serves as the pension and benefit instrumentality of the Christian Church. Its services are available to all persons employed by organizations and units of the Church. Its contractual benefits are provided upon a fully-funded and sound actuarial basis. As the Board of Ministerial Relief and Assistance, it also serves as the Church's unit extending relief, support and assistance to those who have served the Church without contractual participation, or for whom such participation was limited or absent, because of lack of church support. This organization was brought into existence by the Church in 1895 to provide aid to needy Christian Church ministers and dependent families of deceased members. It has operated continually to provide support, assistance and/or relief to the ministers, missionaries and all employees of the Church and its related organizations and educational institutions.

The Fund has administered a pension or annuity system for the Church since 1912. Its present Pension Plan was initiated in 1931. There are more than 10,000 members of the Plan, of which 3,500 are beneficiaries. The Pension Plan is considered a "Church Plan" and operates as a Section 403(b) annuity.

The contribution limitations of 403(b) and 415(c) (1) apply to the Pension Plan. The majority of denominational pension plans use such 403(b) annuity arrangements as the method of providing retirement benefits for ministers and lay employees. These annuities meet the needs of the churches and were used long before the introduction of Section 403(b) into the Code many years ago. The tax-deferred treatment of the church's contribution has been helpful to this low income group.

The "catch-up" contribution levels, recently approved, are particularly helpful in increasing the retirement incomes of those ministers and lay employees who are now retiring and whose compensation and annuity contributions in the early years was pathetically small.

The circumstances for the need to make catch-up contributions should be explained. A minister's career begins at a salary of approximately $10,000 to $12,000 a year. During the first years of the minister's career, contributions may be a function of salary and, hence, very small. It may also be that the minister will be employed by a new or struggling church that cannot afford any Plan contributions. Under the Code, the minister may take a reduction in salary to permit the employer to purchase

supplemental annuity benefits. However, the minister's already inadequate cash compensation will not for many years permit this course of action. The minister will need every penny earned to feed and clothe the family and educate the children. It is not until the minister has been working for 25 or 30 years that compensation will increase to the point where some amount may go to the purchase of additional annuity benefits. Several years prior to the retirement age, when personal living expenses may have declined, the minister may be in a position to use part of the salary to supplement retirement income. In some instances a minister's salary may still not be adequate to bring retirement benefits up to an acceptable level, and congregations will collect funds as a "love offering" for the minister and contribute them to the minister's retirement annuity.

The ability to make regular "catch-up" tax-deferred contributions toward retirement benefits is a distinct advantage to those who serve the common good of all.

The church has attempted to meet the basic needs of its employees for financial security. It provides a pension plan with retirement, death in active service and disability benefits. It also provides a health care insurance program for active employees and for the retired. Each program is available to all employees of the church without discrimination.

The Church has chosen to provide benefits in this way because we consider the benefits to be essential to the economic welfare of those who serve the Church. The Church is in a position to provide benefits and group coverages at much lower costs. This factor added to the tax incentives provided by existing law allow us to do much more. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of benefits and protection in the future.

Thank you for this opportunity that the Subcommittee on Taxation and Debt Management has provided the Church to express its concern for employee benefits. We believe that tax policy which encourages the Church, and other employees, to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees.

CHRISTIAN REFORMED CHURCH IN N.A.
MINISTERS' PENSION FUND

July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely Yours,

Garrett C. Van de Riet

Garrett C. Van de Riet
Administrator

GCV/pc

encl.

CHRISTIAN REFORMED CHURCH IN N.A.
MINISTERS' PENSION FUND

July 26, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Garrett C. Van de Riet,
Administrator, Ministers' Pension Fund
Christian Reformed Church in North America
2850 Kalamazoo Avenue SE
Grand Rapids, MI 49560

Relative to housing allowance being made Income Tax Free (but not Social Security Tax Free) to ordained ministers of the church, this serves a useful social purpose because ministers of whatever faith do have a moral influence on our citizens and ministers are very low paid persons and this housing allowance fringe benefit gives them a little better economic position.

ASSURING ECONOMIC SECURITY FOR WORKERS: HEALTH, DISABILITY, AND LIFE INSURANCE BENEFITS

Statement of
Deborah J. Chollet, Ph.D.*

Before the United States Senate Finance Committee
Subcommittee on Taxation and Debt Management

Hearing on
Employee Fringe Benefits
July 26, 27, and 30, 1984

The views expressed in this statement are solely those of the author and should not be attributed to the Employee Benefit Research Institute, its officers, trustees, sponsors, or other staff.

* Deborah J. Chollet is a Research Associate of the Employee Benefit Research Institute, a non-profit, non-partisan public policy research organization. Before joining EBRI, she was a Senior Research Fellow at the U.S. Department of Health and Human Services, National Center for Health Services Research, and served on the faculty of Temple University.

TABLE OF CONTENTS

Section		Page
I.	Employer-Provided Health Benefits	1
	A. Coverage	2
	B. Equity	6
	C. Efficiency of Tax Preferences: What Are the Alternatives?	10
	D. Summary and Concluding Remarks	12
II.	Employer-Provided Disability and Life Insurance Benefits	15
	A. Long-Term Disability Insurance	16
	B. Basic Group Life Insurance	19
	C. Efficiency of Tax Preferences: What Are the Alternatives?	20
	D. Summary	24

LISTING OF TABLES

Title		Page
Table 1:	Distribution of Workers Covered by an Employer Group Health Insurance Plan by Level of Workforce Activity, 1982	3
Table 2:	Distribution of Nonelderly Persons Covered by Employer Group Health Insurance Plans, by Worker Status, 1982	5
Table 3:	Distribution of Workers Covered by an Employer Group Health Insurance Plan by Personal Earnings, 1982	7
Table 4:	Distribution of Persons Covered by an Employer Group Health Insurance Plan by Family Income, 1982	9
Table 5:	Distribution of Persons with Private Health Insurance or Public Program Eligibility by Employer Health Insurance Coverage, 1982	13
Table 6:	Percent of Full-Time Employees Participating in Employer Health, Long-Term Disability, and Life Insurance Plans, Medium-Size and Large Establishments, 1982	17

ASSURING ECONOMIC SECURITY FOR WORKERS:
HEALTH, DISABILITY, AND LIFE INSURANCE BENEFITS

Statement of
Deborah J. Chollet, Ph.D.

Mr. Chairman, I am pleased to submit this testimony on the importance of employee benefits to the economic security of workers and their families. The tax preferences accorded particular kinds of employee benefits--pensions, health insurance, disability insurance and life insurance--have been instrumental in achieving broad participation among workers and important economic security for workers and their families. This was the purpose for which Congress granted tax preferences for these benefits and legislated nondiscrimination rules for qualifying plans. Today, most workers participate in pension and insurance plans through their employers. They have come to consider these benefits, and their tax status, as part of the same social contract that assures their entitlement to Social Security benefits, unemployment insurance and workers compensation insurance.

This testimony describes the prevalence, distribution and importance of three different employee benefits: health, long-term disability, and life insurance. These benefits, together with employee pension plans, are the major elements of most employee benefit packages. Unlike pensions that provide for the future economic security of workers, however, health, disability, and life insurance provide current economic security for workers and their families. For most workers, these benefits are their only private insurance against the economic disruption of illness, permanent disability or death.

I. Employer-Provided Health Benefits

Most people who have private health insurance receive all or part of

their coverage from an employer group health insurance plan. In 1982, employer plans provided health insurance coverage to 80 percent of the total population that reported private insurance coverage from any source. These people include workers and their families at all levels of earnings and income.

A. Coverage--Health insurance is the most common employee benefit provided to workers in the United States. In 1982, 84 million civilian nonagricultural workers reported coverage from an employer group health insurance plan. These workers represented nearly 78 percent of the nation's total civilian nonagricultural workforce (see Table 1).

Rates of employer group health insurance coverage are particularly high among workers who are employed full-time throughout the year, the largest sector of workforce. In 1982, more than 90 percent of full-time full-year workers were covered by an employer group health plan.[1]

Although most workers (60 percent) have coverage from their own employer plan, dependents' coverage is an important source of coverage for many, particularly for workers who are employed only part-time or during part of the year. In 1982, 29.4 million part-time or part-year workers were covered by employer group health plans. About half (44 percent) of these workers were covered as the dependents of other covered workers.

Dependents' coverage from employer health plans is also an important source of health insurance coverage among nonworkers, and particularly among children. In 1982, more than half of all nonworkers under the age of 65 (52

---

[1] By comparison, 56 percent of all workers, and 70 percent of the ERISA workforce, participated in an employer pension plan in 1983. Employee Benefit Research Institute, "New Survey Findings on Pension Coverage and Benefit Entitlement," EBRI Issue Brief, No. 33 (Washington, D.C.: Employee Benefit Research Institute, August 1984).

Table 1

DISTRIBUTION OF WORKERS COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN BY LEVEL OF WORKFORCE ACTIVITY, 1982[a]

Workforce Activity	Employer Coverage			No Employer Coverage
	Total	Direct Coverage[b]	Indirect Coverage[b]	
	(Persons in millions)			
All workers	83.7	65.3	18.4	24.2
Full-time workers	65.1	58.3	6.8	11.8
Full-year	49.4	46.1	3.3	5.3
Part-year	15.8	12.3	3.5	6.5
Part-time workers	13.6	4.1	9.5	8.1
Full-year	5.1	2.1	3.0	2.5
Part-year	8.5	1.9	6.5	5.6
Self-employed	5.0	2.9	2.1	4.3
	(Percents)			
All workers	77.6	60.5	17.1	22.5
Full-time workers	84.7	75.8	8.9	15.3
Full-year	90.4	84.3	6.1	9.6
Part-year	70.7	55.0	15.7	29.3
Part-time workers	62.3	18.8	43.8	37.4
Full-year	66.7	27.9	38.8	33.3
Part-year	60.3	13.8	46.5	39.7
Self-employed	53.6	30.8	22.8	46.4

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).
Note: Items may not add to totals because of rounding.

a Includes civilian nonagricultural workers, except those living in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

b Direct coverage is defined as coverage provided by the worker's own employer plan at any time during 1982; indirect coverage is coverage received as the dependent of another worker in 1982.

percent) were covered by an employer group health insurance plan (see Table 2). Most of these people (77 percent of covered nonworkers) were children under age 18; the rest were nonworking adults, including a small number of retirees under age 65.

High rates of worker participation in employer group health plans is encouraged by both the tax code and the way that group health insurance is priced. Employer contributions to health insurance have been statutorily exempt from individual income and Social Security taxation since 1954. These exemptions have encouraged worker demand for employer-provided health insurance at all income levels. In addition, the Social Security tax exemption has provided a financial incentive for employers to offer health insurance benefits in lieu of wage compensation to workers who earn less than the Social Security ceiling on taxable wages. In 1983, nearly 95 percent of all workers earned less than the Social Security ceiling. The combination of these tax incentives for workers and employers has produced high rates of worker coverage at all income levels.

The pricing of employer group health insurance also encourages broad worker participation in employer plans. In general, the package of benefits that insurers are willing to underwrite for a small employee group is less generous (per premium dollar) than the benefit package available to members of a larger plan. By offering health benefits to all employees, employers who purchase insurance (either primary coverage or stop-loss coverage for a self-insured plan) may find that the incremental cost of providing health insurance is low relative to the value of improved coverage to all workers. To maximize employee participation in the plan, and to enhance the plan's cost-efficiency, employee contributions to the plan are generally kept low.

Table 2

DISTRIBUTION OF NONELDERLY PERSONS
COVERED BY EMPLOYER GROUP HEALTH INSURANCE PLANS,
BY WORKER STATUS, 1982[a]

Worker Status	Number of Persons with Coverage (in millions)	Percent of Persons with Coverage	Percent of All Persons with Coverage
All Persons[b]	130.8	67.5	100.0
Workers[c]	83.7	77.6	64.0
Nonworkers	47.1	54.9	36.0
Children	40.4	64.2	27.6
Others	11.0	37.7	8.4

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes all civilians except those living in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

b Items may not add to totals because of rounding.

c Includes civilian nonagricultural wage and salary workers and self-employed workers.

B. Equity--Employer group health insurance coverage is possibly the most egalitarian employee benefit provided to workers in the United States. Employer health plans include the spectrum of workers at all levels of earnings; rates of coverage among all workers except those at the very lowest annual earnings level--generally with fragmented employment patterns--are high and roughly equal. Furthermore, the value of health insurance benefits shows little variation among workers.[2] As a result, employer-provided health insurance is a particularly valuable benefit for low- and middle-income workers: for these workers, employer contributions to coverage represent a proportionately larger real income supplement than they do for higher-income workers.

Most workers covered by an employer group health plan are low- and middle-income workers. In 1982, more than 80 percent of all workers covered by an employer group health insurance plan earned less than $30,000; and more than one-third earned less than $15,000 (see Table 3). Only 5 percent of all workers covered by an employer group health insurance plan in 1982 earned more than $40,000.

The common allegation that employer health insurance benefits primarily high-income workers is not supported by national population survey data. Rates of worker coverage by employer plans are high and stable at all levels of earnings above $15,000. Even though workers who earned less than $15,000 reported somewhat lower rates of employer coverage in 1982, however,

---

[2] Employer contributions to health insurance, as reported in the 1977 National Medical Care Expenditures Survey, showed no significant variation by worker earnings. Gail R. Wilensky and Amy K. Taylor, "Tax Expenditures and Health Insurance: Limiting Employer-Paid Premiums," Public Health Reports (July/August, 1982), table 2.

Table 3

DISTRIBUTION OF WORKERS
COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN
BY PERSONAL EARNINGS, 1982[a]

Personal Earnings	Workers with Employer Coverage[b] (in millions)	Percent of Workers within Earnings Group	Percent of All Workers with Employer Coverage
Loss	0.4	43.4	0.5
$ 1-$ 4,999	15.2	56.2	18.2
5,000- 7,499	6.6	65.9	7.9
7,500- 9,999	6.6	74.8	7.9
10,000- 14,999	15.8	85.1	18.9
15,000- 19,999	12.7	90.4	15.2
20,000- 24,999	9.6	92.8	11.4
25,000- 29,999	6.3	93.9	7.6
30,000- 34,999	3.9	93.3	4.6
35,000- 39,999	2.1	93.6	2.5
40,000- 49,999	2.1	91.7	2.5
50,000- 59,999	1.0	92.3	1.2
60,000- 74,999	0.6	89.4	0.7
75,000 or more	0.7	86.9	0.9
Total, All Workers[c]	83.7	77.6	100.0
Summary:			
Loss-$14,999	44.7	68.2	53.4
$15,000- 24,999	28.6	91.9	34.2
25,000- 39,999	6.0	93.4	7.2
40,000 or more	4.4	90.7	5.3

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes nonagricultural civilian workers who reported employer group health insurance coverage at any time during 1982; excludes workers in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

b Includes coverage from the worker's own employer group plan or from the plan of another worker.

c Items may not add to totals because of rounding.

the number of workers in that earnings group is very large. As a result, more than half of all workers who were covered by an employer group health plan in 1982 earned less than $15,000.

The income distribution of all people covered by an employer group health insurance plan--covered workers and their dependents--mirrors the distribution of covered workers by earnings. Table 4 presents the family income distribution of all people covered by an employer group health insurance plan in 1982. More than half of these people lived in families with total family income less than $30,000; nearly three-quarters lived in families with income less than $40,000.

The income distribution of workers and their families who receive coverage from an employer group health plan is important for several reasons. First, since most people covered by an employer health plan are members of low- and middle-income families, employer-provided health benefits probably substantially raise rates of private health insurance coverage throughout the nonelderly population. Research conducted by the Employee Benefit Research Institute (EBRI) and others indicates that income is an important determinant of individual health insurance purchase among people without access to coverage from an employer; if employers did not provide health coverage, most low-income workers would not purchase private health insurance.[3] Economic research has consistently found that the lack of health insurance poses a significant barrier to health care access among low- and middle-income

---

[3] Deborah J. Chollet, Employer-Provided Health Benefits: Coverage, Provisions, and Policy Issues (Washington, D.C.: Employee Benefit Research Institute, 1984), p. 94. An EBRI simulation of private health insurance suggests that 56-87 percent of all covered workers with 1979 family income less than $15,000 would not have purchased private health insurance, if an employer had not offered and contributed to their health insurance plan.

Table 4

DISTRIBUTION OF PERSONS
COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN
BY FAMILY INCOME, 1982[a]

Family Income	Persons with Employer Coverage (in millions)	Percent of Persons within Income Group	Percent of All Persons with Employer Coverage
Loss	0.1	5.5	0.1
$ 1-$ 4,999	1.3	9.2	1.0
5,000- 7,499	2.1	21.2	1.6
7,500- 9,999	3.4	36.4	2.6
10,000- 14,999	12.2	56.2	9.3
15,000- 19,999	14.8	68.2	11.3
20,000- 24,999	17.8	78.2	13.6
25,000- 29,999	17.3	83.9	13.2
30,000- 34,999	15.0	86.3	11.4
35,000- 39,999	11.8	86.9	9.1
40,000- 49,999	15.9	87.0	12.2
50,000- 59,999	8.3	87.1	6.3
60,000- 74,999	5.7	86.2	4.4
75,000 or more	5.2	84.6	4.0
Total, All Persons[b]	130.8	67.5	100.0
Summary:			
Loss-$14,999	19.1	33.4	14.6
$15,000- 29,999	49.8	76.7	38.1
30,000- 39,999	26.8	86.6	20.5
40,000 or more	35.1	86.5	26.8

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes civilians who reported employer group health insurance coverage at any time during 1982, except civilians living in families in which the greatest earner is a member of the Armed forces or an agricultural worker.

b Items may not add to totals because of rounding.

families.[4]

Second, the income distribution of people with employer coverage suggests that a tax on employer contributions to health insurance would, in effect, target low and middle-income workers who constitute more than 80 percent of all workers covered by an employer group plan.

Because employer contributions to health insurance are not significantly related to income, taxing employer contributions to health insurance would also be regressive. That is, the additional tax payment of low-income workers relative to their income would be much higher than the additional tax payment of high-income workers. EBRI tabulations of data produced by the Congressional Budget Office (CBO) indicate that a tax cap on employer health insurance contributions would be regressive at every income level; as a percent of income, people with the lowest incomes would pay more than six times the amount of additional tax paid by people with income above $50,000.[5]

C. Efficiency of Tax Preferences: What are the Alternatives?--Proposals to revise or eliminate tax preferences for employer group health insurance have come from several quarters. The Administration has proposed a cap on the tax exemption of employer contributions to health insurance, both to raise revenue and to discourage generous health insurance benefits in employer plans. The most recent Advisory Council on Social Security also advocated a tax cap, suggesting that Congress earmark part of the general

---

[4] See, for example, Alan C. Monheit, Michael M. Hagan, Marc L. Berk, and Gail R. Wilensky, "Health Insurance for the Unemployed: Is Federal Legislation Needed?", Health Affairs 3:1 (Spring 1984), pp. 101-111.

[5] Deborah J. Chollet, Employer-Provided Health Benefits, p. 100.

revenue from the new tax to Medicare's Hospital Insurance trust fund. Those who have proposed comprehensive tax reform (for example, the Bradley-Gephardt bill) suggest that all employer contributions to health insurance be fully taxed as employee earnings.

These proposals raise several issues. They would potentially enhance federal revenues by broadening the tax base. The prospect of worsening federal tax regressivity among middle-income workers, however, is a major argument against including employer health insurance contributions in taxable income. There is, however, an additional issue to consider: whether current tax preferences, given their public cost in foregone tax revenues, is a better system for ensuring wide access to health care than alternative systems might be.

Proposals to establish a national health insurance plan have been introduced in virtually every session of Congress during the last fifteen years. These proposals have differed in the populations they sought to serve, the kinds of health care expenses they would cover, and their method of financing health care. Last year, the Congress considered legislation that would provide basic health insurance for people who lose employer coverage as a result of unemployment. All of these proposals failed in Congress because their projected public cost was prohibitive. Even so, most proposals for a national health insurance plan--including both major proposals to provide health insurance to the unemployed--rely on employer health insurance plans as the primary providers of health insurance.

The level of tax expenditures associated with the tax exemption of employer contributions to health insurance (estimated at $17.6 billion in

1984)[6] may be a very low price to pay for a system of health insurance that serves more than 60 percent of the population. Federal spending for Medicare, by comparison, is estimated at $62.2 billion dollars in 1984; 1984 federal-state spending for Medicaid is estimated at another $37.8 billion.[7] Together, these public programs finance health care services for only about 18 percent of the population.

The central position of employer-provided plans in our system of health insurance is illustrated by the low rates of alternative health insurance coverage--private or public--reported by the nonelderly population without coverage from an employer plan. Only 26 percent of all people living in families of civilian nonagricultural workers without employer group coverage reported coverage from another private health insurance plan in 1982 (see Table 5). Another 29 percent reported public program eligibility, predominantly for Medicaid. Nearly half (48 percent) of all people living in worker families without employer coverage reported no health insurance coverage from any source during the year. These people--totalling 30 million in 1982--are the largest segment of the uninsured in the United States.[8]

---

[6] Budget of the U.S. Government, Fiscal Year 1985, Special Analysis G.

[7] Figure includes estimated total 1984 Medicare HI trust fund disbursements and 75 percent of estimated 1984 SMI trust fund disbursements reported in: U.S. Department of Health and Human Services, Health Care Financing Administration, Bureau of Data Management and Strategy, "Summary of the 1983 Annual Reports of the Medicare Board of Trustees, Health Care Financing Review 5:2 (Winter 1983), pp. 3 and 8. Unpublished Medicaid spending estimates were provided by the U.S. Department of Health and Human Services, Health Care Financing Administration.

[8] Estimates of noncoverage among the civilian nonelderly population generally range between 14 and 16 percent. Members of civilian nonagricultural worker families without private health insurance coverage or public program eligibility accounted for more than four-fifths of all people without health insurance coverage in 1982.

Table 5

DISTRIBUTION OF PERSONS WITH PRIVATE HEALTH INSURANCE
OR PUBLIC PROGRAM ELIGIBILITY
BY EMPLOYER HEALTH INSURANCE COVERAGE, 1982[a]

Other Source of Coverage	Persons with Employer Coverage		Persons without Employer Coverage	
	Number of Persons (millions)	Percent of All Persons with Employer Coverage	Number of Persons (millions)	Percent of All Persons without Employer Coverage
All Persons	130.8	100.0	62.9	100.0
Other Private Coverage	7.8	5.9	16.1	25.6
Any Public Coverage	5.3	4.1	18.3	29.1
Medicaid	1.9	1.5	13.6	21.6
Medicare	0.4	0.3	2.4	3.8
CHAMPUS[b]	3.1	2.4	3.3	4.9
No coverage, any source	--	--	30.3	48.2

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

[a] Includes all people under age 65 living in families of civilian nonagricultural workers in 1982.

[b] The Civilian Health and Medical Plan of the Uniformed Services.

D. Summary and Concluding Remarks--Employer group health insurance plans are the basis of most private health insurance in the United States. In 1982, 80 percent of all people with private health insurance coverage were covered by an employer plan; half of all people without coverage from an employer plan are uninsured from any source. These people living in worker families without employer coverage represent most of the uninsured population in the United States.

Most of the workers who are covered by an employer health insurance plan are low- and middle-income workers. In 1982, more than half of all workers with employer health insurance coverage earned less than $15,000; 88 percent of all covered workers earned less than $25,000. This distribution of covered workers by earnings is mirrored in the distribution of all people covered by an employer plan by family income. More than half of all people--workers and their dependents--covered by an employer plan in 1982 reported family income less than $30,000. The primary alternative source of coverage among workers and their dependents without employer coverage was Medicaid.

The tax exemption of employer contributions to health insurance are currently being reevaluated as a potential source of new federal revenues. The tax revenues to be gained, however, may be small compared to the potential costs of jeopardizing a system of private insurance that protects more than 130 million workers and dependents. Econometric estimates of private health insurance purchase among workers and their dependents suggest that significant numbers of people now covered by an employer plan would not purchase private health insurance if it was not offered--and largely paid for--by an employer.

Further, potential revenues from the taxation of employer health

insurance contributions must be compared to potential increases in public insurance program spending--particularly by Medicaid. In 1982, 86 percent of nonworkers covered by employer plans were dependent children under age 18. In all states, recipients of AFDC benefits[9] are categorically eligible for Medicaid; furthermore, in some states, dependent children in any low-income family are categorically eligible for Medicaid.[10] The loss of employer coverage among low-income workers, therefore, could impose significant costs on state Medicaid programs. Potential increases in existing public program costs, and the potential for significantly higher rates of noncoverage in worker families, are important considerations in the debate over reducing tax preferences for employer contributions to health insurance.

II. Employer-Provided Disability and Life Insurance Benefits

Employer group disability and life insurance plans provide income replacement for workers and their dependents in the event of the worker's total disability or death. Although no population survey data exist to document the prevalence and distribution of life and disability insurance benefits among workers, published data from a national survey of medium-size and large establishments suggest that life and disability insurance benefits are about as widely held among workers as health insurance. The data presented in the following sections are drawn from the Level of Benefits (LOB)

---

[9] Aid to Families with Dependent Children (AFDC) is a state-based, federal matching program that provides income assistance for low-income families with dependent children. Eligibility criteria are established by the states within broad federal guidelines.

[10] In 1982, 20 states provided Medicaid coverage for all financially eligible persons under age 18. Deborah J. Chollet, Employer-Provided Health Benefits, pp. 22-24.

Survey of full-time employees in medium-size and large establishments. This survey is conducted annually by the Department of Labor, Bureau of Labor Statistics, and reflects plan participation as of January 1 of the survey year.

A. Long-Term Disability Insurance--The purpose of long term-disability insurance is to provide earnings replacement for workers who become permanently and totally disabled. Long-term disability coverage can be provided through an insurance policy, or through the worker's pension plan. In 1982, about 43 percent of full-time workers in medium-size and large establishments participated in an employer group disability plan; 49 percent participated in a pension plan that would provide immediate retirement benefits if the worker became disabled (see Table 6). In total, about 92 percent of all full-time workers have disability coverage provided by an insurance or pension plan.

Since the earnings replacement is the goal of disability insurance coverage, the contribution amounts (from either the employer or employee) and the amount of plan benefits vary by employee earnings. In 1982, two-thirds of full-time employees with disability insurance plans contributed to the plan; employee contributions for disability insurance, however, are low--usually less than one percent of employee earnings. Private pension plans are seldom contributory.

Long-term disability insurance plans usually integrate Social Security, workers' compensation, or other disability-related public program payments. That is, the plan subtracts the amount of these payments from the insurance benefit paid to the disabled worker. The integration of public program benefits in private disability plans has two effects. First, the integration of DI and other public disability transfers serves to rationalize

Table 6

PERCENT OF FULL-TIME EMPLOYEES PARTICIPATING IN EMPLOYER HEALTH, LONG-TERM DISABILITY, AND LIFE INSURANCE PLANS, MEDIUM-SIZE AND LARGE ESTABLISHMENTS, 1982[a]

Employee Benefit Plan	Participants as a Percent of All Full-Time Employees
Health Insurance for Employee[b]	97
Noncontributory[c]	71
Health Insurance for Dependents[b]	93
Noncontributory	44
Long-Term Disability Insurance	43
Noncontributory	33
Retirement pension with immediate disability retirement provision	49
Noncontributory	d
Life Insurance	96
Noncontributory	82

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employee Benefits in Medium and Large Firms, 1982, Bulletin 2176 (August 1983), pp. 6 and 16.

a Participation is defined as coverage by a time off, insurance, or pension plan to which the employer contributes. Employees subject to a minimum service requirement before they are eligible for a benefit are counted as participants even if they have not met the requirement at the time of the survey. In contributory plans, only employees who elect and contribute to coverage are counted as participants. Benefits to which the employer does not contribute are outside the scope of the survey. Only current employees are counted as participants; retirees who participate in the benefit program are excluded.

b The employee or dependents may be covered by a working spouse's plan instead of, or in addition to, participation in the surveyed employer plan.

c All coverage in the benefit program is provided at no cost to the employee. Supplemental life insurance plans, not tabulated here, may be contributory.

d Published tabulation not available.

a public system of independent disability assistance programs. Integration assures a basic, uniform level of earnings replacement for all workers.

Secondly, integration avoids "excessive" cumulative earnings replacement from independent public programs. In general, public-program benefits (DI, workers' compensation, and a variety of other cash and noncash disability assistance programs) are tax-exempt. The accumulation of these benefits can equal or even exceeds predisability, after-tax earnings, providing a strong incentive for the disabled to remain outside the workforce. The integration of public program benefits in employer disability plans mitigates the potential work disincentives associated with overlapping disability assistance.

Social Security DI is an income-redistributive program. The rate of earnings replacement in the DI program is substantially higher for workers at lower earnings levels than for those with greater earnings.[11] Because DI replacement rates, in particular, are inversely related to income, the integration of public program benefits probably also raises the relative value of employer-provided disability insurance coverage to higher-wage workers.

In 1982, two-thirds of all workers who participated in a employer disability insurance plan were guaranteed long-term disability benefits, after integration, of 50 to 60 percent of pre-disability earnings, subject to

---

11 Social Security replacement rates vary inversely with the individuals covered wages. For an average-age disabled person with lifetime covered earnings at the minimum wage, 1984 Social Security Disability Insurance payments would replace 62 percent of predisability earnings. With lifetime covered earnings at the average wage, earnings replacement is 43 percent. With lifetime covered earnings at the Social Security ceiling ($37,800 in 1984), earnings replacement is only 24 percent.

maximum payment limits or ceilings on disability income.[12]

B. Employer-Provided Life Insurance--Nearly all full-time employees in medium-sized and large establishments participate in an employer-sponsored basic life insurance plan. Like disability insurance, basic life insurance benefits are generally intended to provide income to replace lost earnings. The amount of basic coverage provided by employer plans, therefore, is usually a multiple of the worker's earnings. In 1982, about two-thirds of plan participants in medium-sized and large establishments belonged to plans that paid 100 percent or 200 percent of the deceased worker's annual earnings. One third of plan participants belonged to plans that paid a flat dollar amount, usually between $2,000 and $15,000.

In addition to providing death benefits for worker's families, some basic life insurance plans provide a form of disability insurance by continuing coverage or paying immediate benefits to workers who become disabled. Life insurance plans may pay disability benefits in two ways. First, some plans provide a lump-sum or periodic distribution of the policy's face value to workers who become disabled. Second, some plans pay the face value, or a multiple of the face value, of the policy for accidental death or dismemberment; in cases of accidental dismemberment, disability is presumed. In 1982, nearly all full-time workers (99 percent) who participated in a

---

12 Private pension plans do not integrate Social Security benefits as commonly as long-term disability insurance plans. In 1982, only 45 percent of all private pension participants in medium-size and large establishments belonged to plans that integrated or offset Social Security benefits. In general, white-collar employees (professional-administrative and technical-clerical workers) are more than twice as likely to have an integrated pension plan as are blue-collar (production) workers. Published data do not indicate whether pension plans that provide for immediate disability retirement are more likely to integrate Social Security and other public program benefits.

employer group life insurance plan were entitled to extended coverage or distribution of the policy's face value if they became disabled. Nearly three-quarters (72 percent) had coverage that provided accidental death or dismemberment benefits.

Lacking population survey data, the importance of employer-provided coverage as a source of life insurance coverage for workers and their families is difficult to evaluate. Certainly, the wide participation by full-time workers in medium-size and large employer plans suggests that these plans are a major source of life insurance coverage among workers. Furthermore, although employer-provided basic life insurance is not intended to provide adequate life insurance coverage for most workers, only a small proportion of employees in medium-size and large establishments elect supplemental group life insurance coverage--even when the employer contributes. Low participation rates in supplemental plans by full-time workers suggests that many employees may have no private life insurance coverage outside of the basic plan paid by the employer.

C. Efficiency of Tax Preferences: What Are the Alternatives?--Employer contributions to disability and life insurance, like health insurance contributions, are favored by the tax code. Unlike health insurance, however, disability and life insurance benefits are not fully tax-exempt. Workers pay no individual income tax on the value of employer contributions to disability insurance or to life insurance less than $50,000.[13] Individual income taxes are paid, however, on benefits actually received from a disability plan, including disability retirement, at the time of receipt. In general,

---

[13] Employer contributions to life insurance in excess of $50,000 are fully taxable as current income to the employee.

distributions from life insurance plans are exempt from individual income taxation. Neither employer contributions to disability and life insurance (under $50,000), nor the benefits ultimately paid by these plans, are taxable by Social Security.

The level of foregone federal revenues, or tax expenditures, associated with the exemption of employer contributions to accident and disability insurance is estimated at $120 million in 1984. Tax expenditures associated with the exemption of employer contributions to group term life are higher: $2.2 billion in 1984.[14]

For most workers and their families, public disability assistance and survivors' benefits are the most important alternative to employer-provided disability and life insurance plans. Several public-sector programs provide income security benefits comparable to private disability and life insurance. Social Security Disability Insurance (DI) is the largest public-sector program that pays benefits to permanently and totally disabled workers. Because entitlement for DI benefits, however, depends or the worker having a sufficient work history in covered employment, many workers are not currently insured by the DI program. In 1983, only about 62 percent of all workers were insured by Social Security for disability benefits. Estimated 1983 benefit disbursements from the DI trust fund were $17.9 billion.

State workers' compensation programs are also an important source of disability insurance coverage for most workers: coverage by workers' compensation plans is nearly universal. However, these plans pay benefits only for work-related disability. These apparent gaps in public insurance

---

[14] Budget of the U.S. Government, Fiscal Year 1985, Special Analysis G.

program coverage suggest that employer-provided disability and life insurance plans are the primary source of disability and life insurance coverage for large numbers of workers.

Despite coverage by employer disability plans, Social Security, workers' compensation and other disability-related public plans, however, most people who report being severely disabled--that is, unable to work at all or regularly because of a chronic health condition or impairment--report no income from any private or public disability plan. The 1978 Disability Survey conducted by the Social Security Administration found that only 42 percent of the 10.7 million persons who reported severe disability also reported receipt of public or private disability benefits.[15] More careful investigation of this apparent gap in income security for the disabled may be a starting point for reevaluating the adequacy and effectiveness tax incentives for employer-provided plans, and the efficiency of employer plans as an alternative to public disability assistance.

The Social Security Old Age and Survivors Insurance (OASI) is the most prominant public-program alternative to employer-provided life insurance. In 1983, about 55 percent of all workers were insured (either permanently or currently) by OASI. Survivors' benefit payments from the OASI trust fund in 1982 totaled nearly $34 billion.

The level of Social Security expenditures for disability and survivors' benefits, given the share of all workers currently insured for these benefits, offers a rough idea of the potential public cost that might be associated with an essentially public system of disability and life

---

[15] Congress of the United States, Congressional Budget Office, Disability Compensation: Current Issues and Options for Change (June 1982), p. 18.

insurance. It is likely that the additional cost of such a system would be far greater than the level of tax expenditures associated with current tax preferences for employer-provided plans. Whether a revision of tax preferences for these plans would jeopardize private insurance coverage, however, is again an important question. In terms of potential coverage loss, the arguments against revising or eliminating tax preferences for employer-provided disability and life insurance plans may be weaker than the arguments against taxing employer-provided health insurance benefits. At the same time, the estimates of federal revenue loss associated with tax preferences for employer-provided disability and life insurance benefits are substantially smaller.

Like employer-provided health insurance, basic life insurance benefits appear to be evenly distributed among workers--particularly among full-time permanent employees of larger establishments. When the immediate disability retirement provisions of pension plans are included as a source of long-term disability coverage for workers, employer-provided disability insurance is probably also quite evenly distributed among workers. As a result, taxing employer contributions to these benefits (including employer contributions to pension plans) as employee earnings would probably target the low- and middle-income workers who constitute most of the working population.

Unlike employer contributions to health insurance, however, employer contributions to disability insurance, pensions, and basic group life insurance are usually calculated on the basis of employee earnings. Since employer contributions vary directly with earnings, taxation of these contributions is likely to be less regressive than taxation of employer health insurance contributions. A less regressive tax burden, in turn, suggests that

coverage loss among low-income workers might be low relative to the loss of health insurance coverage anticipated from full or increased taxation of employer contributions to health insurance. Nevertheless, employer-provided disability and life insurance--including disability coverage provided by employer pension plans--are an important supplement to the insurance offered by public disability and survivors' insurance programs. Existing research has not investigated the potential coverage loss that might result from reducing or eliminating tax preferences for employer disability and life insurance contributions, or the implications of private coverage loss for the economic security of workers.

Summary--Employer-provided disability and life insurance benefits are common components of employee benefit plans. Although fewer than half of all full-time permanent workers in medium-size and large establishments are covered by an employer-provided disability insurance plan, about 49 percent participate in a pension plan that provides immediate disability retirement benefits. Together, disability insurance and pension plans provide long-term disability coverage for abouit 92 percent of full-time permanent workers in medium-size and large establishments. Similarly, nearly all full-time permanent workers (96 percent) in these establishments participate in an employer-provided basic group life insurance plan.

Nearly all disability insurance plans integrate disability income from Social Security, workers' compensation insurance, or other public disability asssistance programs. Integration of public-program benefits rationalizes total disability income, assuirng more uniform levels of earnings replacement among workers and mitigating the work disincentives associated with very high earnings replacement. Because earnings replacement by Social

Security, in particular, is greater for low-wage workers, however, integration probably also raises the relative value of employer-provided disability insurance for high-wage workers.

Like disability insurance, the goal of basic group life insurance plans is earnings replacement. Plan benefits are usually calculated as a multiple of the worker's earnings. As a result, the value of employer contributions to group life insurance is higher for employees at higher earnings levels.

The earnings replacement goals of employer-provided disability and life insurance plans might make the argument against revising their tax treatment somewhat weaker than the argument against reducing tax preferences for employer-provided health insurance. At the same time, the potential federal revenue gains are substantially smaller. Because the value of disability and life insurance benefits--and the level of employer contributions--varies with employee earnings, taxing employer contributions to group disability and life insurance plans is potentially less regressive than taxing employer contributions to health insurance. In turn, the loss of disability and life insurance coverage among low-income workers is potentially lower.

An important caveat is in order, however. No research exists that documents (1) the distribution of employer-provided disability insurance (including pension coverage that provides immediate disability retirement) or basic life insurance among all workers, or (2) the importance of employer-provided plans relative to other private and public sources of insurance coverage. Circumstantial evidence suggests that employer-provided disability and life insurance plans may be a critical source of income

security for most workers. As the basis of our private system of income security for workers, employer-based disability insurance, pensions and basic life insurance are probably worth preserving. Maintaining effective tax incentives for employers to provide these benefits to workers at all earnings levels may be the most efficient means of assuring a successful private alternative to public assistance.

DRS. CHERRY, LONG & SCOTT
NEUROSURGERY ASSOCIATION
505 BARNETT TOWER BAYLOR MEDICAL PLAZA
3600 GASTON AVENUE
DALLAS, TEXAS 75246
(214) 826-7065

GLENN R. CHERRY, M. D., F.A.C.S.
R. GORDON LONG, M. D., F.A.C.S.
BENNIE B. SCOTT, M. D., F.A.C.S.
JOHN V. COOK, M. D.

AUGUST 7, 1984

SUBMITTED AS PART OF THE RECORD OF THE HEARINGS ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30 BY THE UNITED STATES FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT.

BY: PAULINE DENISON, BUSINESS MANAGER FOR DRS. CHERRY, LONG & SCOTT NEUROSURGERY ASSOCIATION.

THIS LETTER IS BEING SUBMITTED ON BEHALF OF BOTH THE EMPLOYEES AND EMPLOYERS OF THIS ASSOCIATION. OUR EMPLOYERS MAINTAIN QUALIFIED PENSION AND PROFIT-SHARING RETIREMENT PLANS FOR THE BENEFIT OF ALL OF US.

OUR GROUP CONSISTS OF FOUR MEN (EMPLOYERS) AND FOUR WOMEN (EMPLOYEES), ALL OF WHOM ARE COVERED UNDER OUR RETIREMENT PLANS. EVEN THOUGH SOME OF OUR EMPLOYERS ARE LIMITED TO THE $30,000.00 MAXIMUM CONTRIBUTION ALLOWED, OUR FIRM STILL CONTRIBUTES THE MAXIMUM PERCENTAGE ALLOWED (25%) FOR THE LAY-EMPLOYEES ALTHOUGH THEY ARE NOT REQUIRED BY LAW TO DO SO. THE LAY-EMPLOYEES ANNUALLY HAVE RECEIVED AN INCREASE IN SALARY AND, ACCORDINGLY, THE PERCENTAGE CONTRIBUTION TO OUR RETIREMENT PLANS IS ANNUALLY INCREASED.

IF THE GOVERNMENT ELIMINATES OR FURTHER RESTRICTS THE TAX DEDUCTIBILITY OF EMPLOYEE FRINGE BENEFITS, THE DESIREABILITY FOR THE EMPLOYER TO ALLOW AND FUND FRINGE BENEFITS FOR EMPLOYEES WILL ALSO BE ELIMINATED.

PRIVATE ENTERPRISE HAS REALIZED THAT EMPLOYEES NEED FRINGE BENEFITS AND RETIREMENT PLANS TO SUPPLEMENT THE SOCIAL SECURITY RETIREMENT PLANS AND HAS PREPARED A WORTHWHILE AND NECESSARY ARRANGEMENT TO COVER THESE NEEDS. ANY GOVERNMENT PROGRAM TO REPLACE THE PRIVATE ENTERPRISE SYSTEM WOULD PROBABLY BE INFERIOR AND MUCH MORE EXPENSIVE TO MAINTAIN THAN THE EXISTING SYSTEM.

LET US STRESS THAT OUR EMPLOYEE FRINGE AND RETIREMENT BENEFITS ARE ESSENTIAL TO OUR ECONOMIC SECURITY, AND WE STRONGLY URGE AND REQUEST THAT THE GOVERNMENT LEAVE THE EXISTING PRIVATE ENTERPRISE SYSTEM ALONE!

IT BECOMES MORE UNLIKELY THAT THE SOCIAL SECURITY SYSTEM WILL BE ABLE TO PROVIDE EVEN THE MINIMUM OF NECESSARY FUNDS FOR OUR RETIREMENT YEARS. IF GOVERNMENT ELIMINATES THE PRIVATE ENTERPRISE SYSTEM, RETIRED INDIVIDUALS WILL SUBSIST IN A POVERTY-RIDDEN CONDITION AND WILL HAVE NO ALTERNATIVE BUT TO FALL BACK ON THE GOVERNMENT FOR ASSISTANCE.

PLEASE LEAVE THE PRIVATE ENTERPRISE FRINGE BENEFIT AND RETIREMENT SYSTEM TO CONTINUE AS IT IS AND DO NOT RESTRICT TAX INCENTIVES FOR EMPLOYERS TO PROVIDE THESE BENEFITS.

STATEMENT OF CIBA-GEIGY CORPORATION IN CONNECTION
WITH THE HEARINGS OF THE SENATE FINANCE
ON TAXATION AND DEBT
MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at CIBA-GEIGY Corporation believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our non-bargaining employees:

1) Health Care Plan - provides hospital, medical and dental benefits

Total covered 10,002 employees 17,846 dependents
54% earn less than 25,000
21% earn more than 50,000
35% female and minority
76% non-management

2) Pension Plan - provides retirement income benefits

Total covered 8,654 employees
55% earn less than 25,000
20% earn more than 50,000
35% female and minority
76% non-management

3) Investment Savings Plan - provides income to meet retirement income and short-term savings goals on both a taxable and tax deferred basis.

Total covered 8,336 employees
56% earn less than 25,000
18% earn more than 50,000
34% female and minority
77% non-management

4) Disability Plan - provides 50% of salary for Long-term Disability and 100% of salary for Short-term disability.

Total covered 10,002 employees
54% earn less than 25,000
21% earn more than 50,000
35% female and minority
76% non-management

5) Life Insurance - provides low cost life insurance coverage

Total covered 9,520 dependents
54% earn less than 25,000
20% earn more than 50,000
40% female and minority
78% non-management

6) Retirement Medical Coverage

Total covered 2,138 employees 1,537 dependents
35% female and minority
76% non-management

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to either purchase the insurance coverage needed or to fund these benefits in the most cost efficient manner. Through a combination of both these methods, we are able to provide the coverages outlined at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. CIBA-GEIGY has encouraged HMO participation, added mandatory second surgical opinions, increased coverage of preventive care, increased payment for ambulatory surgery and participates in available Preferred Provider Organization. We are constantly studying this problem and evaluating proposed solutions.We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

7777 FAY AVENUE, SUITE 180
P.O. BOX 8529
LA JOLLA, CA 92038-8529
(619) 459-3233

OFFICES IN:
CENTURY CITY
NEWPORT BEACH

Finance Subcommittee on Taxation and Debt Management's
Hearing on Fringe Benefits

Roderick De Arment
Chief Counsel
Committee on Finance, Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

August 14, 1984

Dear Sirs:

Enclosed is our original material from the public hearings from the House Ways & Means Committee in regards to the Tax Reform Act of 1984.

We would like to add to these already written and noted comments that represent, as employee welfare benefit adminsitrators, over one million employees and their dependents in the administration of welfare benefit plans. Without the current status (tax deductible contributions for welfare plans and tax exempt receipt of welfare benefits), the welfare benefit systems will come crashing down around us. Without exception, the sponsoring employers have told us that they will discontinue or severely limit the welfare benefit plans to all employees if the attack which the Reform Act of 1984 (Deficit Reduction Act of 1984) started is continued on welfare benefit plans. The attack originated from a few abusive plans (mainly, professional corporations seeking enormous tax deductions for, in our opinion, impermissible benefits) and has branched out to all forms of welfare plans. The largest form of employers in this country are the small businessmen. They are going to be hurt the most. They are now forced to purchase insurance from commercial insurance carriers who will quickly conclude that they have no market competition. This has been caused by the legislation in regards to funded welfare plans.

Welfare plans, in general, cannot take any more of these attacks without a total collapse in the private sector adopting these programs (and discontinuing these programs if the attack is continued). These benefits should not be the subject of taxation or further regulation. Employers can no longer afford these programs to become either more costly or taxable on the contribution end or the benefits end.

Our employers' and their corresponding employees' greatest fear is of a quick fix tax package started with the Tax Reform Act (Deficit Reduction Act) legislation. They realize the need to raise revenues is urgent; however, a "quick fix" by attacking the exempt nature of welfare benefits will only cause this tax burden to be passed on to the already overtaxed middle class.

Welfare benefits not given the employer incentive of tax deductions and the employee incentive of tax free receipt will cause additional taxes to be raised in a short period of time simply to cover those individuals who will then be on the federal programs because the employers will no longer provide these programs.

This is not a theory. We have met with each and every one of the employers (at least one in each one of the states of the United States) and the feeling is universal. The productivity of the employees will be severely effected as well as the incentive for the employer to continue to provide these benefits and to continue the already effective cost containment of certain benefits by private sector. The continuation of the benefits on a status quo basis should not only be of highest priority, it should be enhanced even further so that the private sector is encouraged to care for its employees without burdening the government (i.e. retiree medical benefits that were intended to integrate with a supposedly lucrative and financially sound medicare system - these retiree benefits are now crippling many employers because of their potential cost and the weakening of the medicare system).

We provided to the Joint Committee on Taxation and the House Ways & Means Committee a 100-page paper in regards to the changes that needed to occur in the funding of welfare plans (commonly known as VEBAs). This paper was, in the most part, ignored, the reasons for which we are not certain; however, these conditions still exist. The employer needs the incentive in order to provide benefits. The employee should not be punished because he becomes sick and needs medical attention, has a long-term disability due to an accident or lingering illness, or dies. These funds and benefits should be encouraged so that the same type of fiscally sound funding of pension plans could also exist for welfare plans.

We not only speak of the tax deductibility of contributions and the exempt status of the funds received by the employees, but we also strongly suggest the encouragement of funded welfare plans as the only practical solution to an already tremendously weakened social security and medicare system. The government has attempted to take over certain welfare benefits through these previously mentioned systems and, for whatever reasons, has found it unmanageable. Therefore, the only logical answer is to allow and encourage private sector to continue to provide these

programs and, in fact, make them more lucrative for the employees. This will not erode the tax base, but will insure its stability through the provision of these benefits and the security of the employee and his dependents.

We thank you for reading this letter.

Best regards,

BARRY R. SCHOTZ, President

BRS:jm

Enclosures: "What is a VEBA?",
Dissolution Section for Limited Membership Plans

cc: Fred Hunt

Suite 300
9404 Genesee Avenue
La Jolla, CA 92037 • (619) 457-4566

Two Century Plaza, Suite 905
2049 Century Park East
Los Angeles, CA 90067 • (213) 553-1600

WHAT IS A VEBA?

A VEBA (Voluntary Employees' Benefit Association) is, as the name implies, a trust to fund employee benefits. It is subject to the Regulations covering IRC §501(c)(9). Permissible benefits are life, sick, accident, and other related benefits. Pensions or deferred compensation are not permissible. The Regulations also dictate that "no part of the net earnings of the organization inures, other than by payment of the benefits . . ., to the benefit of any private shareholder or individual". The Regulations state that benefits must be provided on an equal basis to all similarly situated employees, and may not disproportionately favor the highly compensated.

These programs are also subject to the reporting, disclosure, and fiduciary standards provisions of ERISA.

Contributions to the trust are irrevocably committed to the payment of employee benefits. This money can never be used for anything but employee benefits. The funds no longer belong to the employer, but to the trust, out of the employer's control. If the program's application to the IRS is approved (i.e., the program adheres strictly to the Regulations), the earnings of the trust are exempt of tax. If the contributions are made on an actuarially sound basis and are reasonable, the contributions are deductible under Section 162.

* * * * * * * * * * *

The abuses of VEBAs by professional corporations (referred to as "limited membership plans") since the passing of VEBA Regulations in 1980 has resulted in justifiable concern, leading to the considering of VEBAs along with abusive tax shelters. This approach is understandable but is nonetheless based on a fundamental misconception regarding the broader, more traditional use of VEBAs by employers.

Since 1954 many companies across the country have used VEBAs to provide security for the long-term funding of basic employee benefits. The Internal Revenue Service has stated the permissible economic and social purposes of the VEBA under the 501(c)(9) Code and Regulations. A National Office Technical Memorandum clearly defines this area. "There are many valid purposes for which a 501(c)(9) may accumulate reserve funds. The existence of reserves allows such an organization to conduct its activities without interruption during financially adverse periods, such as, for example, strikes, lock-outs, and economic recession. Normally, as is the case here, the voluntary employees' beneficiary association is almost totally dependent on employer contributions for its funds. Therefore it would of necessity be forced to suspend or substantially reduce its operations if those contributions were to be totally cut off or substantially reduced unless it retained a reasonably large reserve fund."

Referring to a long-term disability benefit provided by a VEBA the TAM states further "It is prudent to attempt to fund such future liabilities in the early years of the plan's operation, rather than risk the possibility that the plan may be under-funded in future years...." LTR 8309004 National Office Technical Advice Memorandum. See Exhibit I.

This language gets right to the heart of the function of a VEBA. A VEBA is a rainy day fund for protection of the funding of the employee's basic benefits, which often amounts to 35-40% of a company's payroll.

When a company experiences financial difficulty (such as occurred on a large scale during the recent downturn in the economy) the first employees to be terminated are the rank and file. These are also the most likely employees to use unemployment insurance and other state and federally funded welfare benefits.

The effect of crippling VEBAs would be to undermine the private sector's ability to pay these benefits and in the long run erode the federal tax base. A VEBA is a company's only vehicle for building the reserves necessary to survive economic downturn and increased costs in benefits. To deny this to American business is to insure another wave of business closures

in our next recession with the inevitable resulting increase in unemployment and federally funded welfare expenses. The final result is a seriously weakened tax base, a demoralized work force, and an increase in government costs in welfare benefits.

To paint VEBAs of this kind with the same brush as the abusive VEBAs of small professional corporations would be a great mistake.

Following are specific recommendations aimed at curbing the abuses occurring in VEBAs. These recommendations are based on 12 years of practical experience in VEBA design for companies ranging in size from 2 employees to nearly 100,000 employees. Many of these are provisions we have been recommending to the Exempt Organizations Section of the IRS for years; and have been standard language in many of the VEBAs designed by our firm.

* * * * * * * * * * *

PERCEIVED CURRENT ABUSES
BY LIMITED MEMBERSHIP (PROFESSIONAL CORPORATION) SPONSORED VEBAs

1. Substituting VEBAs for qualified retirement plans.

The dissolution and distribution of the assets of the VEBA should be done on an actuarially determined basis. The attached dissolution section, which many of our clients have used successfully with the Internal Revenue Service, should provide adequate guidelines for controlling this abuse. It provides for all of the employees to receive their actuarially determined amounts attributable to each one of the benefits provided by the VEBA. This section also prevents the employer from terminating the employees first and then terminating the VEBA to receive the funds. Along with this dissolution section should go the prohibition against providing severance pay or supplemental unemployment benefits to the owner-employees if they represented more than 4% of the total number of eligible participants. This would mean that a sponsoring employer would have to have 25 employees for every owner-employee who wished to participate in a severance or supplemental unemployment benefit. Also, the Department of Labor should be consulted in regard to these

two benefits because of its current jurisdiction in this area. They have provided substantial guidelines for these benefits. Severance pay should be redefined as a retraining benefit, and not applicable to owner-employees if they represent more than one twenty-fifth of the eligible membership. This would leave approximately six permissible benefits for limited membership (professional corporation) programs: Major Medical/Hospitalization, Disability Benefits, Death Benefits, Vacation Pay, Holiday Pay, and Sick Pay. Major Medical/Hospitalization would have to be equal for all participants, as dictated by Section 125 of the Code. Disability Benefits would have to be the same percentage of compensation for each participant, as prescribed by the 501(c)(9) Regulations. Death Benefits would have to be the same multiple of compensation for each participant, as prescribed by the 501(c)(9) Regulations and further governed by Sections 79 and 101 of the Code. Vacation Pay would have to be on a proportionate basis, and again, it could be provided that the owner-employee could not receive more than 25% of the total benefit provided. Holiday Pay and Sick Pay should be the same as Vacation Pay.

The above changes have been suggested to the Internal Revenue Service, as well as to Chief Counsel's Office by CCI for the last several years. However, we have installed each one of these changes in our limited membership programs. Also, we require a corporate trustee (a bank or a trust company).

Last, the use of an enrolled actuary to determine that the contribution is actuarially sound in regard to the type of benefits, the size of the benefits being provided, and the type of funding being used, should be a prerequisite for Exempt Organization filing. There is currently a Revenue Ruling in existence which does not require an actuarial report for a smaller plan; however, this could be remedied with a very simple addition to the 501(c)(9) Regulations.

2. Deductibility of contributions: (a) amount, (b) timing

(a) The size of the contribution should be actuarially determined to be sound. (Refer above for explanation.) This contribution, however, should not be based on the level

funding concept associated with qualified retirement plans. VEBA reserve requirements are determined by future claims for benefits. There is a certain degree of uncertainty inherent in evaluating these needs. In contrast, retirement plan needs are for a stated amount of benefit over a stated period of time. (Refer to Technical Advice Memorandum LTR 8023016 and 8309004 for further details.)

(b) The contributions to welfare plans (VEBAs) are irrevocably made. The funds (unlike overfunded retirement plans) may never be returned to the corporation. The dissolution section attached, along with this irrevocable commitment of funds, should be more than enough reason that the contributions should be deductible in the year in which they are actually paid (most limited membership/professional corporation plans are cash basis taxpayers and these contributions must be made by the last day of the plan's fiscal year in order for these contributions to be deductible). Tying of the deductibility of the contribution to rules that currently govern non-qualified deferred compensation ignores the very different needs for reserves of two disparate concepts - qualified retirement plans and welfare plans.

3. Favorable tax treatment of contributions

Benefits that are provided by welfare plans funded by employer contributions, both of which are afforded favorable tax treatment, are required to meet stringent tests. Numerous sections of the Code and Regulations (along with the associated Tax Court and Revenue Ruling cases) provide for these tests. Each benefit must comply with the above parameters, along with the formulas provided by the 501(c)(9) Regulations, before this favorable tax treatment is afforded the contribution and benefit payments (e.g., medical benefits are subject to Sections 125(b), (e), (g), and (h), along with Section 501(c)(9) and ERISA).

Consideration of limiting the favorable tax treatment of the employer contributions based upon the tax treatment of the benefits when received by the employees illustrates the application of a "quick-fix" approach to revenue raising. This disregards the purpose of providing the incentive to employers to continue these benefit programs without the

financial hardship that would otherwise occur without these dual incentives.

Level funding based on payroll is unacceptable to the financial integrity (actuarial soundness) of the reserves needed to assure payments for benefit claims now or in the future. All of the claims for benefits in the VEBA (welfare plans) are due to an unanticipated event. Therefore, unlike the predictability of a retirement plan, VEBA needs reserves which go far beyond any percentage of payroll or any percentage of the annual cost of providing these benefits in the past (refer to Technical Advice Memorandum LTR 8023016 and LTR 8309004)

4. Eligibility to participate

The problem in this area arises from the false assumption by the legal and accounting community that qualified retirement plan restrictions are suitable for VEBAs. Many of these programs have been utilizing the 3 years of full-time continuous service plus age 25 as the entry requirement for the VEBA. However, Exempt Organizations has been rejecting these programs on a regular basis. Also, the elimination, or the limiting, of severance pay and unemployment compensation will have the effect of allowing all full-time employees with 30 to 90 days of service to be eligible to participate in the VEBA. Possibly, stronger language in the eligibility and participation sections of the 501(c)(9) Regulations, limiting the waiting period to no longer than six months to a year, would be appropriate.

5. Vacation and Recreational Facilities

Unless the owner-employee represented one twenty-fifth, or less, of the total eligible membership for benefits under the 501(c)(9) (VEBA), he could not participate in this benefit. Also, it would be required that employees would have equal right of usage, and easy access to the facility. Also, limiting the deductibility of the contribution for this benefit to depreciation, is an excellent idea. This could be done through a modification of Section 162 of the Code and the 501(c)(9) Regulations.

7.03 **Termination:**

Upon the termination of this trust, any and all monies remaining in the fund, after the payment of all unpaid claims and/or insurance premiums and other expenses and obligations of the trust, shall be paid or used for the continuance of one or more of the benefits of the Plan.

CLEAN LINEN SERVICE INC.

128 N. Lexington Avenue, Pittsburgh, Pa. 15208 412/371-3000

August 10, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington DC 20510

Re: Employee Benefit Hearings

Dear Mr. DeArment:

It is my understanding that Senator Packwood will be conducting hearings concerning Employee Fringe Benefits.

Our Company although small does provide a full range of fringe benefits for our employees. Our programs include full 365 day Blue Cross and Blue Shield with Drug and Eye coverages. We also provide Life Insurance equivalent to one times earnings to all employees including Officers, Managers and Officer Owners. In addition, we have an excellent Pension Plan, Vacation and Holiday program, and a 401K Salary Reduction Plan.

It is imperative that programs such as these be provided to employees for their general peace of mind, well being and sense of dignity. If the government persists in its present direction of taxing fringe benefit programs such as Life Insurance over $50,000.00, 401K contributions (subject to Social Security) and now the possibility of other fringes being taxed to high paid employees and/or Owner Operators, it will soon become unattractive to continue these programs. If owners and high paid employees cannot fully participate, many programs will be abandoned, to the detriment of the employees who in the long run benefit most because of their inability to provide these benefits on their own.

I have in the past written to Senators Heinz and Spector regarding the fact that 401K Salary Reduction Plans have been made subject to Social Security taxes. Senator Spector was kind enough to get a response from the IRS concerning their reasoning for this. Their primary concern was that it allowed taxpayers to manipulate their Social Security contributions. This is rather absurd as the only people who have any manipulative abilities concerning Social Security would be those who are under the Social Security max, and they are least likely to have the financial flexibility to be manipulative. If they are able to save some small portion of their earnings in a tax free retirement program I think we need to encourage rather than discourage this kind of savings. Keep in mind these dollars are completely invested and flow back into the economy which is also desirable. Further, those people who are in the higher income brackets who might like to manipulate their Social Security contributions cannot simply because they are over the Social Security max, and pay the same amount of Social Security whether they contribute to a 401K or not. This is another example of providing an outstanding program to benefit the worker, to help him supplement his retirement income, to take some pressures off Social Security, and then finding ways to make it less attractive when we should really be trying to make it more attractive.

Combined limitations on Pension Plans, Retirement Savings Plans, Profit Sharing Plans, etc. which restrict the upper income employee or owner operator from participating to the same degree (percentage wise) as all other employees tend to make these programs less attractive to these people and when combined with the record keeping and reporting requirements that are inherent in all of these programs it is understandable that many small to medium size companies have abandoned their Pensions and other Health and Welfare programs. These kind of government activities are certainly counter productive to what I believe we should be trying to accomplish. It is essential that programs which provide retirement

benefits, post retirement life insurance, hospital care, etc. be encouraged. It is far better for industry to provide these benefits for their employees than it is to have government become involved. As the population of aged Americans increases, these kind of benefits become more and more important. It should be the charge and the objective of our legislators to do all they can to encourage industry to provide for the well being of their employees as they enter retirement, and to encourage the people to participate in retirement savings programs. Unnecessary restrictions must be avoided.

It is understandable and desirable that we do not permit high paid employees and owner/operators to abuse any of the fringe benefit programs which are made available to their employees. However, it is wrong to not allow them to participate to the same degree as their employees. As an example, it has occurred in our situation that because of the combined limits on Pension benefits and 401K contributions that if our Company were to make a contribution to the 401K program on behalf of our employees (as a percentage of their prior years contributions) our President would not be able to participate in that contribution. He is not excessively paid and all contributions to the 401K are his own. This seems highly undesirable and unfair and would cause many employers to decide that it is simply not worthwhile to make a contribution to the program under these circumstances.

I believe most of the government programs such as Social Security, Medicare, etc. are not well run and are excessively expensive and could much better be done by industry within proper guidelines. I believe that the direction and objective of the committee should be to establish reasonable limits to encourage employers to provide a full range of employee benefits both pre and post retirement. This should be done with tax incentives such as non-taxability of 401K earnings and contributions, deductibility of prefunding post retirement medical and life benefits, non-taxability of life insurance over $50,000.00 unless it exceeds the same

multiple as provided to all other employee, etc. etc.

We pray the committee will enter its deliberation with the well being of the employees in mind and not restrict themselves because they are afraid a few people may get a little more than they would like them to have.

Thank you for whatever time and attention you give this letter.

Yours very truly,

J. E. Wilson

J. E. Wilson
Vice President - Finance

bw

Statement of the
CNA Insurance Companies
Before the Subcommittee of the
Taxation and Debt Management of the
Senate Finance Committee
on
Taxation of Fringe Benefits
July 30, 1984

Mr. Chairman and members of the Subcommittee, my name is Jae L. Wittlich, and I am Vice President of Group Operations for the CNA Insurance Companies.

CNA greatly appreciates this opportunity to testify on the issue of taxation of employee benefits. So that you may better understand our testimony, allow me to explain briefly the nature of our interest in this subject.

CNA Insurance Companies is a Chicago-based, multi-line insurer employing 11,000 persons. As is true of virtually every large employer, we offer our employees an array of non-wage benefits, including a broad range of contributory and non-contributory insurance plans and a retirement plan. With the inclusion of dependents, approximately 30,000 lives are covered under our employee group life and health plans. Accordingly, we are concerned with taxation of employee benefits as it may affect our own employees' group health and pension plans.

CNA ranks among the top ten insurers as measured by annual group life and health premium; our annual premiums and equivalents for these lines total over $1 billion. We are

the second largest insurer of federal employees under the Federal Employees Health Benefits Act program, insuring nearly 400,000 civil servants. Our coverage also extends to many of their dependents, bringing the total lives covered by us under FEHBA to over 1.2 million. Finally, we are a large administrator of employer-provided pension plans. Our total pension plan assets now stand at over $2 billion, roughly 17 percent of our total company assets. Thus, as an insurer we are equally concerned with taxation of employee benefits as it may affect the viability of CNA as an on-going business entity.

Our testimony will focus, therefore, only on two employee benefits: employer-provided health insurance and pension plans. First, I will provide the Subcommittee the position of CNA on this matter. Second, I will assess the likely overall economic impact on the nation of taxation of these particular employee benefits. Third, I will relate this overall impact to CNA specifically, both as employer and insurer.

The CNA Position

The CNA Insurance Companies believe strongly that the current tax treatment of employer-provided health and pension plans is sound law and responsible social policy. We will vigorously oppose any attempt to increase significantly the after-tax

costs of providing these plans to our nation's work force. Federal revenues attributable to taxation of these employee benefits would be exceeded by corresponding increased costs of other federal social programs. Even more important, taxation of these benefits would bring to an end social policy that is as sound today as it was when established over half a century ago.

Overall Impact of Taxation of Employee Pension and Health Plans

CNA shares the widely held view that employee pension and health plans are desirable benefits of employment. Their tremendous growth during the past 50 years has significantly improved the income security of future retirees and has provided wide access to health care for most workers. This growth is primarily attributable to current tax incentives.

The growth of employee pension and health plans should not be surprising, for this result was the policy goal that led to the enactment of the tax incentives in the first place. Current laws governing the taxation of employee pension and health plans reflect a social policy premised upon the knowledge that broad, affordable coverage of workers and their families under these plans increases productivity and engenders positive relations between employers and their employees. I should add that the Congress was probably not totally

selfless in establishing this system thrcugh the use of the private sector since direct federal expenditures necessary to achieve this same coverage would require a tremendous tax burden.

The tax expenditures associated with these employee benefits have fulfilled the expectations established for them at the time they were enacted. Over half of all full-time U.S. workers in commerce and industry and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. The number of participants is estimated at over 50 million, with life insurance companies providing pension plans for over 31 million persons. Participation in employer group health plans is even greater: Three-quarters of all workers and nearly 90 percent of all full-time, full-year workers participate. With widespread coverage of dependents in employer plans, it has been estimated that more than 60 percent of the total civilian population has health insurance coverage through employer-sponsored plans. In short, employer-provided group health insurance is the primary source of private health insurance coverage in this country.

Given the high levels of worker participation in pension and health insurance plans, it should be obvious that these

employee benefits are not on the order of "golden parachutes" for the highly paid. In fact, current tax laws strictly forbid discrimination in favor of highly paid employees with respect to participation in either of these benefits. Accordingly, participation in employee pension and health plans is widely distributed, and most participants are low- or middle-income workers.

I acknowledge the Congress' concern about the growth of employee benefits as a form of tax-favored compensation and its impact upon federal government revenues. Concern about the federal budget deficit has led many policymakers to conclude that taxation of employee benefits is one viable alternative to reducing the federal deficit. CNA believes this perspective is myopic as applied to employee pensions and health plans.

First, federal revenue losses from employee pension plans are not as sizeable as they appear at first glance. Contributions to employee pension plans represent deferral of current revenue, not tax avoidance. Taxes are paid on withdrawals from the funds both before and after retirement. Thus, over the life-time of the taxpayer, gross revenue losses are significantly lower than they appear when viewed only in terms of current revenue deferrals. In fact, it is estimated by the Employee Benefits Research Institute that as much as 75 percent of the inflation-adjusted value of taxes deferred during a

pension participant's working career is ultimately repaid through retirement income taxes.

These gross revenue losses or tax expenditures are, in our opinion, easily exceeded by the benefits they provide to society. Employee pension plans contribute significantly to the retirement income security of American workers, and this security is the major benefit under current tax treatment of such plans. This security could be jeopardized if taxation of employee benefits leads to a marked decrease or the disappearance of employer contributions.

I recognize that no specific proposal to tax employee benefits is before this Subcommittee at this time. I presume, however, that taxation of employer contributions to benefit plans would mean increased taxes to the employer or to the employee or to both. Increased taxes to either or both would raise the costs of the plans. Depending on the level of increased costs, the plans would experience decreased contributions or participation foreseeably to the point of total collapse of employee pension plans.

If a total collapse of our employee pension plan system should occur, reliance on individual retirement plans to provide similar levels of retirement income would not be prudent. The present retirement system places primary responsibility for retirement income provisions on individual taxpayers and

employers. Workers fund the cost of Social Security benefits through tax payments; employers accumulate and invest defined benefit plan pension assets so that funds are available upon retirement of employees. In both instances, the American worker benefits from avoiding the risks of not saving adequately for retirement and poor investment performance of the worker's retirement portfolio.

Significant discretionary savings by individuals is not an American tradition. As a nation, we are notorious nonsavers as compared to the Japanese, Canadians, and Western Europeans. It would be politically naive to think that a significant number of our workers would replace their employer-provided pension plans through personal savings. Thus, employee pension plans constitute an important form of nondiscretionary saving.

The current level of Individual Retirement Account participation proves this point. During 1983, the Employee Benefit Research Institute (EBRI) studied the rates of return on IRAs for the five-year period 1978-1982. According to its findings, the most successful IRA holders achieved an 8.7 to 9 percent five-year-average annual real rate of return (inflation adjusted). During 1982, EBRI estimated that just over 17 percent of all IRA assets were in these accounts. The average real rate of return for the other

83 percent of IRA assets was less than 1 percent over this same five-year period. EBRI concluded that, with maximum IRA contributions, an annual 9 percent real rate of return over 40 years could provide significant retirement income security; a less than 1 percent real rate of return could not.

This study calls into serious question the ability of the vast majority of individual workers to assume successfully the risk of investment necessary to provide for their own retirement income security. Those workers who fail to make sufficient retirement income provisions will surely look to the government for their retirement needs, placing an even larger burden on our social welfare system, especially Social Security which already suffers from an acute loss of public confidence in its fiscal integrity.

Another significant benefit often overlooked by those alleging that employee pension plans erode the federal tax base is the enormous contribution pension plans make to our financial markets. Employer-provided pension plan assets are approaching $1 trillion. Life insurance companies hold about one-third of these assets as pension reserves. These assets are used to provide capital support for our economy in the form of long-term mortgages and other venture capital projects that, in turn, create jobs and corresponding tax revenues in our major urban and other areas.

The added depth to the financial markets that pension plan assets provide would likely disappear or be severely reduced under a system that eliminated tax deferral of contributions to the plans because many employers would find the cost of continuing contributions (increased taxes, higher pre-tax wages) to be prohibitively expensive. Again, the net result would be retirement income insecurity for millions of our future retirees.

With respect to employee health plans, taxation of employer contributions would be equally disadvantageous to our workers and our nation. First and foremost, taxation of employer contributions to employee health plans would raise the cost of coverage for employer and employee plan participants. Employers would face additional tax liability under FICA, for example, and increased demands for higher wages from employees in their efforts to maintain pre-tax compensation levels. Plan costs would also rise for participants since we would expect employees with low-health risks to reduce their after-tax health care costs by finding less complete or narrower health insurance coverage. The exit of low-risk participants from existing plans, i.e., adverse selection would raise the average risk that plan-stayers would represent. Consequently, the average cost of the plan would rise.

Rising plan costs raise the distinct possibility that some workers would lose health insurance coverage altogether:

Employers would exclude marginal workers -- the part-time, seasonal or laid-off -- to lower coverage costs. Low-risk employees who voluntarily option out of health coverage altogether could also increase the number of uninsured workers.

Keep in mind also that in most corporations today, for example, the insurance purchasing function is entrusted to one or more professionals who review a vast array of coverages, insurers, and administrators to arrive at the best plan or plans for their employees. If employer-provided health plans go out of existence or become too expensive for the average worker, the purchase of alternate coverage will either not be made or made by the employee who lacks benefits expertise in such complex matters and who may be confused by the array of individual products available, potentially resulting in disillusionment at claim time.

Employer contributions to health insurance are broadly distributed across households at most income levels. These contributions represent a larger percentage addition to family income at lower levels of income than at higher levels of income. Taxation of employer contributions, therefore, would place a heavier tax burden on families at lower levels of income. Certainly, a regressive federal income tax is not the goal of this Congress. This would be the result of this proposal, however.

Consider, for example, a typical employer health plan with an annual premium to the employee of $1,500 for comprehensive coverage. For a worker earning $15,000 per year, who now must pay federal income tax on an additional $1,500 of annual income, or even a portion of this amount, the additional burden is substantial. Consider also that the additional income tax must be paid with cash or its equivalent, whereas the $1,500 of additional income would be received by the employee in the form of non-cash benefits. While the lack-of-receipt-of-cash problem could be solved simply by giving cash directly to employees to purchase health insurance coverage, it must be expected that many would risk going without coverage and use the money for other purchases.

CNA is aware that proponents of taxation of employer health insurance contribution also argue that it would help contain inflation in health care costs. This result is unlikely. First, the most important source of expanding coverage and rising health care services during the last 20 years has been the public sector -- specifically Medicare and Medicaid, health care programs that have purchased since 1967 one-half of all hospital care, the most inflationary component of health care services. These programs have supported much of the inflation in aggregate health care costs. Federal tax policy that would reduce private-sector demand for health care would, therefore, probably have little impact on overall health care inflation.

Second, the private sector is acutely aware of the need to dampen upwardly spiraling health care costs. The growth of utilization review programs, preferred provider organizations, health maintenance organizations, and wellness programs reflect private-sector cost reduction efforts. These efforts have had some impact on health care utilization. We are now seeing Consumer Price Index trend factors that are four percentage points below those of just two years ago. Further, we have seen a ten percentage-point reduction in our own average group policyholder case experience trend between 1982 and 1984.

Impact of Taxation of Employee Pension and Health Plans on CNA

Thus far, I have devoted my testimony solely to the general impact of elimination of the current tax treatment of pension and health plans on the nation. I would now like to turn my attention to its impact on CNA specifically.

Elimination of the current tax treatment of employee pension and health plans would be disastrous for CNA as an employer and as an insurer. Similar to most large employers, we would initially reconsider whether, in light of the increased costs to us of providing contributions, the plans are affordable, given today's extremely competitive insurance market. At the least, we would probably have to offset some increased costs through reduction of the benefits available under the

plans. It may also be necessary for us to also reduce our total amount of contributions to the plans as another cost-cutting measure. If these cost-cutting measures fail to make the plans affordable or if adverse selection proves too great with regard to our health plans, CNA would have to seriously consider eliminating the plans completely.

Additionally, since we expect our employer-policyholders to behave rationally also and, therefore, reduce their demand for pension plans and group health services, a reduction in our workforce would be highly probable. We estimate that taxation of employee pension and health plans could cause the loss of up to 2,000 CNA jobs. Under a worst-case scenario, among these job losses would be our 650 employees located at our Rockville, Maryland, facility who devote their time exclusively to our FEHBA market.

As an insurer, CNA would have to expect a precipitous decline in our pension and group health markets. A $2 billion loss of assets and a $1 billion decline in annual group health premiums would call into question CNA's economic viability.

Assuming that some workers would seek to self-fund their retirement income, we would expect an increased worker participation in IRAs. To date the insurance industry, including CNA, has not been successful at penetrating this market. The industry ranks fourth, preceded by savings

and loan associations, commercial banks, and mutual savings banks. These institutions' IRA assets outrank those of the insurance industry 10 to 1. We would, of course, redouble our efforts to reduce the IRA asset imbalance, but these financial institutions clearly have a marketing advantage over us that would not be easy to overcome.

Conclusion

In summary, Mr. Chairman, employee pension and health plans are prevalent and important components of labor compensation in our country. Over 150 million workers participate in them, along with 1 million employers. The benefits provided by these plans -- retirement income and affordable health care coverage -- are widely distributed among workers and their families at all wage levels; as a percentage of income, low-income workers benefit more from these plans than do highly paid workers.

Were the plans severely curtailed or possibly even ended because of taxation of employer contributions, the Social Security system or any other federal welfare program would be unable to meet the needs of the retired and the unhealthy. Our most recent economic recession showed to all of us, including this Congress, the vital link between health insurance coverage and employment. Of the three basic types of proposals introduced in the Congress to

address the problem of health insurance for the unemployed, two required employers to assume the responsibility of providing coverage for their unemployed workers. With the recovery of the economy in recent months, policy discussions regarding health insurance for the unemployed have receded. Taxation of employee health plans and the resulting curtailment or destruction of such plans therefrom would quickly renew these discussions. This time, however, concern would focus on health insurance for the employed, and employers would clearly not be in a financial position to address this concern.

Prior attempts to regulate employee pension plans resulted in the passage of ERISA. Hundreds of thousands of pension plans were terminated by small employers because they could not economically conform their plans to the Act's requirements. A similar effect on the remaining employee benefit plans would result from changes in the tax laws.

As stated previously, the current tax treatment of employee pension and health plans is an example of the rich, long-standing American tradition of employers and government joining forces to provide for the security of workers and families. Taxation of employer contributions to employee pension and health plans is not a more efficient and equitable way of providing affordable, broad retirement income security

and health care coverage for over 150 million Americans. The current tax treatment of these plans should be continued as is, and employee pension and health plans should be removed from any further discussion of taxation of employee benefits.

Thank you.

Robert T. Palo
Vice President, Personnel
& Industrial Relations

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

The purpose of this correspondence is to set forth the position of the Coca-Cola Bottling Company of Chicago regarding the tax favored status of employee benefits.

Our Company fully supports the current tax favored treatment of employee welfare and pension benefits. New legislation revising said treatment would have an adverse impact on our employees and their families.

It is important to note that benefits do not go mainly to the highly compensated. Upon reviewing our data, approximately 85% of employee medical care and pension funding is spent for employees earning under $25,000. Whereas less that 5% is spent for employees earning in excess of $40,000. A change in tax treatment would result in an increase in taxable income to our employees of approximately $3,500 per annum. The tax burden for an employee earning $22,500 with three (3) dependents would increase over $200 per year. Accordingly, we firmly support the current tax favored treatment of employee welfare and pension benefits.

Very truly yours,

Robert T. Palo

RTP/mb

The Coca-Cola Company
ATLANTA, GEORGIA

MICHAEL W. WALTERS
DIRECTOR
CORPORATE EMPLOYEE BENEFITS

ADDRESS REPLY TO
P.O. DRAWER 1734
ATLANTA, GA. 30301
404-676-2121

August 10, 1984

Mr. Roderick A. de Arment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. de Arment:

In accordance with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits to be held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

M W Walters

Attachment

MW/SS/7.25.1

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management

by Michael W. Walters, Director Corporate Employee Benefits Department

The Coca-Cola Company

The Coca-Cola Company employs over 40,000 employees throughout the world, approximately 14,000 of whom are employed in the United States. These employees are offered a comprehensive compensation program, a large portion of which is represented by noncash programs commonly referred to as "fringe" benefits. Over time, the noncash portion of the program has grown in importance, to the point where it now represents almost 30% of total compensation.

Employer-sponsored fringe benefits programs provide security to employees for a variety of needs, such as death benefits to surviving dependents, protection against catastrophic medical contingencies, income continuation in the event of debilitating and disabling injuries, provision of adequate income in retirement, and encouragement of personal savings programs. These programs have been provided in a manner which is not always attainable by individuals.

The Coca-Cola Company currently offers several benefit plans which are covered by the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), including the following types of plans:

Retirement
Thrift
Health Benefits
Dental Assistance
Life Insurance
Business Travel
Vision Care
Long-Term Disability Income Continuation
Short-Term Disability Income Continuation

The practice of The Coca-Cola Company is to offer the uniform package of benefits to all employees of participating subsidiaries who are not represented through a collective bargaining agreement. Thus, hourly and salaried employees participate in the same plans, are subject to the same benefit formulas, and receive the same relative (and, in some areas, absolute) levels of benefits. Represented employees are covered by plans which are negotiated by their representatives.

To place a perspective on the relative worth to employees of these plans, the following statistics are provided:

- Currently, there are over 2,400 retirees and surviving spouses of former employees receiving benefits from the Employees' Retirement Plan of The Coca-Cola Company. Without this income, their income from other sources would be essentially inadequate.

- Approximately 90% of all eligible employees are making contributions to The Coca-Cola Company Thrift Plan. The Company matches a portion of their contributions, and there are restrictions on withdrawals of balances to ensure that the primary focus of Plan savings is supplemental income in retirement.

- Healthcare claims (medical and dental) for employees and dependents averaged almost $1,500 per employee in 1983. This figure does not include administrative expenses paid by the Company; rather, it represents only the actual cash claims paid to employees.

- 93 disabled employees are receiving payments from the Long Term Disability Plan averaging almost $750 each per month.

- Almost $1.5 million was paid in 1983 to beneficiaries of deceased former employees from the Uniform Group Life Insurance Plan.

These statistics show the comprehensiveness of the current benefit program. One of the most important factors that has led to the evolution of this program is the recognition given in the Internal Revenue Code of the importance of encouraging such programs. Although most employee benefit programs predated the enactment of ERISA, the Act did reinforce Congressional conviction as to the social desirability of providing fringe benefits in an equitable and nondiscriminatory fashion.

It is not difficult to envision the effects that removal of the tax incentives for providing fringe benefits would have on the benefit program. With limited resources to apply to the fringe benefit program, elimination of the tax incentives would almost certainly lead to a proportionate reduction in the value of benefits provided to employees, as a means of maintaining current levels of expenditures. Without access to tax-effective means of purchasing benefits, employees would be faced with either reducing their current level of disposable income in order to restore the lost benefits or

foregoing the current levels of protection. Most likely, employees with little flexibility in their current disposable incomes would have no choice but to forego some of their retirement, disability and medical protection, and would look to Federal programs such as Social Security for restoration of protection.

Recent legislative and administrative activities, including the provisions in the Economic Recovery Tax Act of 1981 which permit qualified plan participants to establish Individual Retirement Accounts, and the Treasury Department's issuance of regulations regarding Section 401(k) plans, have been effective in bringing the employee directly into the benefit-planning process. Further, Section 125 of the Code encourages the development of "cafeteria" benefits which increases the level of responsiveness of the benefit program to genuine employee needs. However, these developments by themselves do not address the full spectrum of needs that are currently being met by comprehensive fringe benefit programs. Early career employees do not have sufficient time to accumulate funds necessary to provide the wide-ranging levels of protection that are necessary. Individual savings programs are an important element in the overall program, but do not provide for all contingencies necessary to meet all needs.

In summary, the current legislative environment has resulted in the development of a comprehensive program of benefits which is available to all employees of The Coca-Cola Company, addresses a diversity of genuine employee needs, is greatly appreciated by employees, would be virtually irreplaceable if left to individual initiative, and would result in increased demands for replacement via Federal programs if eliminated.

MW/SS/7.25.2

12748 Sheraton Avenue
Baton Rouge, Louisiana 70815
August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Glenn B. Coats

GBC/mm

Submitted as Part of the Record of the hearing on EMPLOYEE FRINGE BENEFITS held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

BY: Glenn B. Coats

Glenn B. Coats

Millions of American workers are currently enjoying the benefits of retirement from pension plans of their company in addition to their Social Security benefits. Without the private pension system which, to a large extent, is non-contributory on the part of the employee, retired American citizens would be unable to sustain themselves. There have been many plans instituted in recent years wherein retired employees may earn as much as 75% of their employment income in retirement. With the growing numbers of workers who are living longer lives, Congress needs to look for ways in which we can enhance the value of private pension plans to ensure the continuing growth in the economy which will be of the greatest benefit to all of the citizens of this country.

It was most encouraging to have the establishment of individual IRA accounts so that in addition to private pension plan systems, and the Social Security system, individuals may now enhance their retirement benefits with additional savings. A combination of all of these plans can only enhance the prosperity of Americans.

For millions of American workers, all of these retirement benefits simply mean the difference between prosperity and poverty. Let us continue to encourage prosperity!

Collins & Aikman
SCIENCE & SERVICE DIVISION

Collins & Aikman Corporation
Science & Service Division
701 McCullough Drive
P.O. Box 32665
Charlotte, NC 28232

(704) 596-8500

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Glynn R. Greer
Corporate Manager
Benefits and Policy

GG/ch

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management by Collins and Aikman Corporation.

In this era of significant government deficits, it is understandable that tax incentive programs should undergo review to justify their continuance. However, it is unfortunate that the private emplcyee benefit plan system has been identified as either wasteful or an area of perceived abuse. These thoughts lead to the conclusion that this system is no longer worthy of government encouragement and support.

We are concerned that the private system is now viewed as a program of "special interest deductions" and top executive "perks". In other words, a benefit of limited value whose funding is contributing significantly to the deficit problem.

We believe that the private employer benefit system should continue as the primary indirect compensation vehicle for American workers. We believe the socially desirable goal of providing a respectable and satisfactory retirement is best achieved by the private sector providing benefits which supplement and support government programs such as Social Security and Medicare. We believe that tax incentives which accompany private benefit plans are an efficient means of controlling costs and containing inflation. Furthermore, when the economic vitality of many entitlement programs, including Social Security, is in doubt, it is inconsistent to suggest that the demise of the private system will help these government programs. In short, more pressure will be exerted to provide more government benefits for all workers.

We also believe that the private employee benefit plan system should not be abandoned in favor of individually funded benefits. This dramatic shifting of responsibility would strain the economic ability of many low and middle income individuals to provide for their own needs. This fact will in turn negatively impact public sector financing and further increase government costs. A substantial portion (20-35%) of our employees' compensation is provided on a group basis through company benefit programs. The cost for an individual to produce similar insurance and retirement benefits is almost prohibitive on an individual basis. Likewise, the company's ability to produce similar benefit programs when faced with tight profit margins and no tax incentives, will be significantly reduced.

We believe that employees view their company's benefit program as an integral part of their total compensation package. Any negative tax changes to existing programs will almost certainly require additional direct compensation to make up for lost benefits. This spiral will lead to additional inflationary pressures.

Finally, the elimination of the private system will deprive employers of a key element in attracting and retaining a competent and productive labor force. Employees today are aware that these benefit plans are very expensive. They are willing to share in paying these costs assuming the guarantee of protection/coverage in the benefit need areas is provided.

GENERAL STATEMENT CONCERNING EMPLOYEE BENEFITS PLAN OF COLUMBUS JACK CORPORATION

Our company is a Small Business which has built what we believe is an effective arrangement to cover some of the needs of our employees through our Employee Benefit System.

We believe that our Plan is superior to any Government program which would replace it.

We believe it would be unwise to dismantle Employee Benefit Plans such as ours in the name of greater tax revenues.

We believe it much wiser for Private Enterprise to meet these needs rather than to depend on the Government to do so.

Ours is a small company with approximately 60 employees. The benefits do not go principally to the higher-paid employees. The benefits do not go only to male employees of our company.

Private Employee Benefit Plans such as ours do not fail to adjust for inflation.

We believe our employees will suffer if private Employee Benefit Plans do not exist.

We believe that Employee Benefit Plans are essential to the economic security of our workers and their families.

J.T. COMER & ASSOCIATES, INC.

209 W. SECOND AVE.
P.O. BOX 1263
GASTONIA, NORTH CAROLINA 28052
TELEPHONE (704) 866-0595

July 23, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirkson Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

J. T. COMER & ASSOCIATES, INC.

James T. Comer, III
President

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: James Thomas Comer, III for
J. T. Comer & Associates, Inc.
P. O. Box 1263
Gastonia, NC 28053

As actuaries and employee benefit consultants, J. T. Comer & Associates, Inc. services approximately 500 small, medium and large participant pension programs throughout the southeastern United States. We also consult with our clients on various types of fringe benefit programs to include: retirement programs, health insurance plans, life insurance programs, disability income plans, cafeteria plans, etc. Our organization sells no insurance or investment products; we are a service organization.

During the past few years, we have become increasingly concerned about the direction in which Congress has taken toward the taxation of employee benefits.

As consultants for approximately 350 clients with less than 25 employees, we can assure you that any change toward the tax incentives which currently are available to benefit programs would drastically reduce the proliferation and continuation of such benefit programs.

To a great extent, the only benefits that are provided to workers today are provided by companies which desire the favorable tax benefits. We would hate to see the loss of these valuable life, health, retirement, and other benefits among employees which simply in today's economy cannot afford to purchase these benefits on an individual, taxable basis.

We feel that the current employee benefit plan system does provide a useful, social and economic purpose even though in some isolated instances, the benefits may be primarily for higher paid employees.

Our clients have been continually bombarded by new congressional legislation which requires amendments, restatements and continual changes to their benefit programs. Some have simply "thrown up their hands" and cancelled all benefit plans for employees. This has not only been detrimental to those employees, but also to the U. S. Tax Base, since

39-707 O - 85 - 32

these small employers will seek their "tax shelters" in other places such as, oil and gas leases, real estate, etc.

I urge you on behalf of our small consulting organization not to continue in the modification of the private employee benefit system. Certainly the small revenues to be gained would not be worth the tremendous losses that common law and key employees would suffer. We urge you, at this time, to reconsider your position on contemplated changes in the employee benefit field. Let us and our clients rest for at least one year!

Sincerely,

J. T. COMER & ASSOCIATES, INC.

James T. Comer, III
President

cc: Senator John East
Senator Jesse Helms
Donald H. Kohla, President, Southern Pension Conference

COMMERCIAL ELECTRONICS OPERATIONS

ROCKWELL INTERNATIONAL

SENATE FINANCE COMMITTEE

FRINGE BENEFITS HEARING

JULY 26, 27 & 30, 1984

COMMENTS FOR THE RECORD

August 9, 1984

Dear Sirs;

I would like to take this opportunity to provide comments for the record regarding the social value of employee benefits and to commend your initiative in addressing an area of prime concern to your constituents. The comments offered are intended to provide a fair representation of employee benefits as viewed by employees and by a component of a multinational corporation.

The comments provided herein are relative to an organization with sales in excess of $1.0 billion and total employees in excess of 15,000 with locations in Texas, Iowa, Florida, California and Illinois.

Assessment of the social value of employee benefits encompasses a myriad of employee perceptions, needs and desires. However, from an employee's perspective, benefits may be viewed as having three basic functions: replacement of income in certain situations (pensions, social security, etc.), provide increased security via financial protection (medical, dental, disability, etc.), and a source of opportunities and services (vacations, holidays, tuition reimbursement, etc.).

Discussing the functions separately, the need for income replacement programs has long ago been recognized by the populace, leading to the advent of "old age" benefits or social security provided by government. Given the magnitude of this task and a recognition by employers for the need to supplement legislated programs, an adequate balance has been maintained between the private and public sectors in providing these programs. Admittedly, it is not out of the goodness of Corporate hearts that these programs evolved. Obvious incentives are present for employers to recognize and offer income replacement programs. Among those incentives are certainly the advantages of having a workforce that may concentrate on current productivity rather than old age financial stability. Recent legislation has reduced potential discriminatory application of these programs thus assuring employees of consistent application

and coverage. From a social value standpoint, an individual well postured financially for retirement creates less of a burden on the public welfare system and thereby allows those truly in need to benefit. Programs of this type found in industry must fulfill the needs of the employee and be cost effective and manageable to the employer. In contrast, a government provided program would be almost totally driven by the recipient as they would be the ones "paying the freight" via their tax dollars.

Additionally, the flexibility and applicability of pensions to various demographic populations found in industry would be lost if government were to be required to provide "in-total" these plans. Certainly a reduction in the tax incentives provided to employers to offer these plans would shift a greater burden to the public sector. Ultimately, the cost of this shift would be greater than the tax revenues generated by reduced incentives. Besides the tax issues, it is highly unlikely that government programs could provide adequate replacement income to the extent both in amount and coverage that employer plans currently encompass.

Industry provided pension plans are constantly under scrutiny from all sides, the least of which is the employee's future needs and requirements. Consequently, plans take into consideration inflationary trends typically by weighing the final several years' earnings in determining pension benefits. As more plans integrate with regulatory benefits (social security) a greater recognition of the mix between statutory and elective benefit costs are evident. As workforce demographics have changed, employees working until later ages, increase of single-parent employees (predominantly female), etc., industry has recognized needed alterations of plan designs of years ago. A greater than ever percentage of females are receiving pension benefits. Pension benefits to those employees earning under $25,000 approaches 60% with less than 5% of pension benefits going to those earning over $50,000.

In summary, employer sponsored replacement income programs fill a much needed and required role of providing future financial security for employees while at the same time relieving the public sector from the burden of shouldering this requirement.

The second function of benefit plans, as mentioned earlier, is that of providing increased security via financial protection. This encompasses such benefit plans as health, dental, vision, etc. Much is written today about health care quality and cost with the major emphasis placed on cost containment. Just for a moment, let's explore why costs seem to be continually escalating and why this is an issue.

A major reason for cost escalation is the ever-increasing demand by the population for scientific and technological breakthroughs and/or improvements. These efforts do not come "cheap". Is this demand bad? Maybe the demand isn't complete enough - i.e., if individuals demanded "cost effective" health care measures, would that demand go unheeded? Basic economic principles support the market pricing of any good or service. Possibly what is needed is greater education on the user's part to make them a "smart buyer" of medical care. Or is it that "big" corporations have given employees a "free ride" with regard to medical care costs. Probably both phenomena have occurred. But what size entity is better able to tackle this issue - a large government which legislates "improvements" or a business-like approach that involves the entire system? I propose the corporation

stands a better chance of resolving the issues. True, benefit costs are tax deductible but a corporation must still look at total costs and manage them appropriately through education of the users and involvement with the provider community.

Employees, in this day and age, feel a company is obligated, in some way, to protect them from catastrophic financial situations resulting from medical incidents. As with pensions, employer sponsored plans allow for tailoring of these coverages to the demographic population impacted. Medical and dental programs are the most widely used and visible programs amongst the cadre of benefit plans offered by employers today. Many employers have already begun extensive cost containment efforts, without government prodding, with favorable results. We have, in fact, taken major steps in the recent years to alter plans to make them more cost effective, educate employees to lifestyle changes that can reduce medical costs and how to appropriately and efficiently procure medical care. After implementing recent changes a drastic slowdown in premium growth, as well as a better or smarter utilization of this benefit has taken place within our own organization.

Employees would indeed suffer if internal requirements to hold the line on medical care costs were coupled with an unfavorable tax treatment of this area of benefits. This would force a total reevaluation of a company's position regarding medical care benefits and, in all likelihood, produce a drastic reduction in coverage. Obviously, this would create a void which some entity would have to fill - either the individual or the government.

The third function of employee benefits is to provide a source of opportunities and services such as vacations, holidays, tuition reimbursement, etc. This area of benefits allows the corporation to share with the employees the company's success. Benefits of this nature allow and/or aid a company in being a competitive force in the attraction and retention of qualified, productive personnel. Achieving a wholistic approach to employees is facilitated by the use of benefits that recognize an employee's individuality. As evidenced in the recent past, the population desires a greater amount of leisure time and, consequently, vacations and holidays come high on the list of priorities for most employees. Here also, corporations many times need a little prodding and tax incentives fulfill that role while, at the same time, benefitting employees.

Other programs such as employee discounts, subsidies of activity clubs, offering of exercise and wellness programs to employees and their families are representative of how companies have recognized the social and economic value of providing an employee the means to sustain a happy, productive lifestyle. Were the incentives that are currently in place withdrawn, not all programs would disappear but corporations would surely revisit their positions with regard to these activities.

In our component of the corporation a predominate portion of the workforce is female. Consequently, a large percentage of our benefits package is heavily utilized by that population. While females make up a large portion of the workforce, the plan design is for everyone to benefit equally. Plans are structured to be common amongst large segments of the workforce. As an example, pension, health, dental, thrift plan, disability, vacations, holidays, etc., are the same for all salaried employees, whether they are exempt or non-exempt under FLSA. Plans are not geared toward benefitting the higher paid individual due to the commonality of plans and a feeling that all should be treated equally and fairly.

From a taxation standpoint the withdrawal of incentives, or worse yet the taxation of fringe benefits, would adversely affect employees. As an example, the average fringe rate as a percentage of base compensation approximates 40%. An individual earning $25,000 would thus have additional taxable income of $10,000. Obviously, this has a compounding effect of not only taxing the $10,000 but increasing the tax on the $25,000 dramatically. I submit to you that individuals in this income bracket would view very unfavorably a move towards this type of scenario. This approach would also force individuals, in certain instances, to opt out of employer plans and thereby not enjoy or avail themselves to previously utilized programs. Here is where the burden starts shifting to the public sector because individuals will demand a return on their tax dollars.

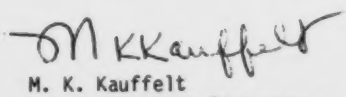
I have attempted to not overdramatize the seriousness of my comments. However, your review of the employee benefit area has far reaching and large scale potential impact on everyone.

In summary, private enterprise has over time and with the aid of incentives built an effective and efficient system for covering the needs of employees.

I firmly believe it is far superior to any government program which could be developed. Further, this system should not be forsaken in the name of greater tax revenues. Certainly the employee needs are evident and must be met. If private enterprise is not encouraged to meet these needs and requirements, the government must, and individuals will mandate it. This event would greatly impact our nation and the ultimate cost to our nation would be prohibitive.

I again would like to thank you for the opportunity to express our views and would enjoy further discussions on the matter.

Respectfully Submitted,



M. K. Kauffelt
Director, Human Resources
Commercial Electronics Operation
Rockwell International

Communications Instruments, Inc.
P.O. Box 520 Highway 74 East Fairview, North Carolina 28730 704/628-1711 Telex 577456

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Duksen Senate Office Building, Room SD-219
Washington, D.C. 20510

RE: PUBLIC HEARINGS JULY 26, 27, and 30, 1984 ON THE ISSUE OF EMPLOYEE FRINGE BENEFITS

Dear Chief Counsel DeArment:

Communications Instruments, Inc., as a member of the private enterprise system, has built an effective and efficient arrangement covering the needs of employees and their dependents through the employee benefit system. It is far superior, in our opinion, to any government program which would replace it. It certainly should not be systematically dismantled in the name of greater tax revenues. Employee needs are there and must be met. If we in the private enterprise system are not encouraged to meet these needs, the government must. The ultimate price to our nation will be greater.

Below, I have listed some of the facts concerning Communications Instruments, Inc. Employee Benefit Program.

1. Our Medical/Dental/Life Insurance Coverage is provided for each of our employees, whether production or salaried, at no cost to the employee. Optional dependent coverage is offered at a much reduced rate that an individual policy would cost. CII also offers optional Life Insurance Coverage for employees and their dependents at group rates, again at much lower cost than individual rates.
2. Communications Instruments, Inc. employees over seventy-five percent (75%) women. Many of these women are divorced or widowed and are sole support of their dependent children. Should employee sponsored medical/dental benefits not exist, individual policies may not be affordable for these single parents, thus requiring state and/or federal government assistance.
3. Our annual bonus plan, each full-time employee being eligible, has been developed as incentive to prepare, either through stock investment or IRA's, for retirement years.

We at Communications Instruments, Inc. want to stress that employee benefits are essential to the economic security of our employees and their dependents.

Sincerely,

C. W. Young
Director of Personnel

COMMUNITRONICS
CORPORATION
1907 SOUTH KINGSHIGHWAY • ST. LOUIS, MISSOURI 63110 • (314) 771-7160

July 25, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Employee Benefit Hearings

Dear Mr. DeArment:

Following is a statement of our benefit package in order for your sub-committee to understand and realize the importance of employer-sponsored benefits and the diverse effects if our government does not strongly encourage and support thru tax incentives these benefit programs.

Our benefit package is a medical coverage program with $5000 life insurance which would only cover basic burial expenses. The medical coverage has a $250. deductable with $750. per family maximum. Insurance covers 80% of the next $2500 with 100% after that maximum of $100,000. With in our small Company we have realized the importance of families having sufficient coverage to meet the expenses of medical care. If this was left to individuals with moderate incomes the money for medical and life insurance could be easily deverted to other areas and when medical needs arrived we would see

a dramatic increase to city & state clinics and hospitals for free care or we could find many families financially wiped out attempting to pay medical expenses.

We feel our insurance plan is such that employees have to pay a sufficient amount out of their own pocket to realize the importance of only using medical facilities when there is a need.

Our benefits apply to all employees regardless of sex or salary. Those on the lower end of the pay scale are the employees that can least afford todays prices of medical care and would be the first to seek government assistance. We feel companys such as ours have met the needs of its employees as well and if not better than the government could at a much lower cost.

Pressure should also be placed on the medical field to keep cost more in line. Medical expenses have climbed 25 to 30 percent a year, a higher rate than anything else in this country and the rate of improved health care does not justify the rate of increase that we have experienced. Corporate and individual incomes have not increased proportionately to allow for continued payment of higher medical benefits with out depleting reserves and having an adverse effect on the economy in general.

For employers to continue to maintain the coverage for its

employees that is required to meet the needs of current medical cost additional incentives will have to be forth coming from the government. Rising cost are indangering the very programs that have brought this country to rank #1 in meeting the medical needs of the people. It is by far cheaper to allow tax incentives then to try and administer government insurance and welfare programs.

Sincerely,

Robert L. Anderson
President
Communitronics Corp.

RLA/rea

COMMUNITY FEDERAL SAVINGS and LOAN ASSOCIATION OF THE PALM BEACHES

PHONE [illegible]
AREA CODE 305

POST OFFICE DRAWER 19073 RIVIERA BEACH, FLORIDA 33404-1673

August 7, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Re: Senator Packwood's Hearings on Fringe Benefits

Community Federal is the employer of 215 persons in Southeast Florida. As a member of the financial community, we are in direct competition with other organizations both large and small for qualified persons. Competition for experienced employees is severe and we have found that our benefits package is extremely important in keeping those people with longevity and expertise.

Our package includes medical and dental benefits, vacations, disability insurance, life insurance, profit-sharing, and a retirement plan. Coverage for all of these extends to each of our employees on a non-discriminatory basis. It is my understanding that the Committee on Finance is considering possible legislation regarding taxation, limits, and possible overhaul of this entire area of compensation administration.

I urge that you not limit the long range positive effects on the economy that these plans have. If, through taxation, they become less meaningful, then experienced employees of all companies will have little motivation to stay "beyond the next paycheck." The end result will then certainly be lessened productivity (because of inexperience), lessened loyalty from the company to the employee (an important factor that many of us overlook) and an increase in the number of people who become dependent upon the government for services and assistance.

I urge that particular attention be paid to the retirement income question. If social security is to survive, it will be because people again view it as supplementary at best, and not as the primary source of retirement income. That can be achieved best by providing for favorable tax treatment during both the accumulation and distribution phases.

Thank you for the opportunity to comment.

Respectfully,

Frederick A. Teed
President

FAT/dmr

OFFICE OF THE MAYOR

City of Concord
P. O. BOX 308
North Carolina 28025

August 1, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

SUBJECT: Taxation of Employee Benefits
HEARING DATE: July 26, 27 and 30, 1984

Dear Mr. DeArment:

The City of Concord is submitting a written statement to be included in the printed record of the hearing on the taxation of employee benefits.

Municipalities have, over the last thirty years (30) or longer, offered employee benefits to be competitive with industry in attracting and keeping qualified employees. Among the benefits are included retirement plans, health insurance, life insurance, and long-term disability insurance. In addition, employees are given two (2) weeks paid vacation and a plan for accruing and using sick leave.

These benefits do not principally go to the highly paid but are applied equally to all employees. Benefits do not go to men only. Again, all benefits given to employees of the City of Concord are administered equally without regard to race, color, sex, religion or national origin.

The retirement plan in which the City of Concord participates is the North Carolina Local Governmental Employees Retirement System and is administered by the same staff which administers the North Carolina State Teachers Retirement System, whose principal office is located in Raleigh.

The pension plan used by the cities of North Carolina for its employees undergoes a review by its actuaries each year to determine its financial needs for the coming year and to make necessary adjustments for inflation.

To attract and keep a qualified work force, it is necessary to provide certain employer sponsored benefits. Where basic benefits are not given, workers suffer. Benefits, it is felt, are essential to the economic security of our employees, those who have retired and to their dependents.

Over the years, private enterprise has built a very effective and efficient arrangement covering the needs of employees through the employee benefit program. Comparatively speaking, this system is far superior to any government program which would replace it. Therefore, it is believed that the Federal Government should not seek ways to systematically dismantle the benefit systems now utilized in the name of greater tax revenues. Private enterprise has recognized that employee needs must be met. Should private enterprise not be encouraged to meet its needs, government must. We believe that for this action, the ultimate price to our nation will be greater.

Sincerely,

Bernie A. Edwards

Bernie A. Edwards
Mayor

BAE/vw

THE CONCORD TELEPHONE COMPANY
66 CABARRUS AVENUE, EAST – P. O. BOX 227
CONCORD, NORTH CAROLINA 28025

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirkson Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

THE CONCORD TELEPHONE COMPANY

Phil W. Widenhouse
Executive Vice President

PWW/ryw

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Phil W. Widenhouse
Executive Vice President
The Concord Telephone Company
Post Office Box 227
Concord, North Carolina 28026-0227
ID#: 56-0186420

The Concord Telephone Company is a small "Independent" telephone carrier operating in a 700 square mile area of Piedmont North Carolina. The Company was incorporated in 1897 and its retirement plan was begun in 1956 with existing employees receiving credit for prior service.

At December 31, 1983, our employees' retirement plan had assets of $8,688,952 (market value). A single plan covers all employees and officers who have worked one year and attained age 25. At the end of 1983, we had 377 participants in the plan: 309 employees at work; 12 vested terminations; 46 retired employees receiving payments plus 10 survivors or beneficiaries receiving payments. Of the 309 employees working, 146 or 47% are female with an average credited service of 13.34 years.

Throughout the years, we have stressed to our employees the importance of preparing for retirement as well as the hazards of life. For example, the retirement plan also has death or disability benefits for eligible employees or their beneficiaries. We have stressed how our plan together with Social Security provides a basic minimum income level in the area of 60% of recent earnings. However, we have also emphasized the need for personal savings, life insurance etc. in preparation for retirements or the earlier risks of life.

The present recipients of our retirement plan number 56 and of this number 76% are female. Only two recipient payees involves an officer of the Company and one of the two is the widow of an officer who died during 1983 and prior to retirement.

We have adjusted retirement amounts a number of times over the years, the last time being 1981 at which time the monthly amounts were adjusted from 2.5% to 20% depending on date of retirement. We hesitate to automatically index for inflation for economic reasons. One change in IRS rules would help us keep up to date and that would be to allow non-discriminatory increases by filing rather than requiring a plan amendment which involves too much legal expense etc. Our Board of Directors will consider this year another adjustment for retirees to be effective in 1985.

Please keep in mind that there are a lot of good employee retirement plans in existence sponsored by companies such as The Concord Telephone Company. We strive to do right by all our employees while at the same time being required to fund the Pension Benefit Guaranty Corporation.

Surely it is inconceivable that Congress would for a moment think of denying tax deductible status to our employees' retirement plan!

TESTIMONY OF

WALTER R BORIS
EXECUTIVE VICE PRESIDENT
CONSUMERS POWER COMPANY

ON SUBJECT OF:

STATE OF EMPLOYEE BENEFIT PLANS

TO THE SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT

Mr Chairman and Members of the Committee, my name is Walter R Boris, Executive Vice President of Consumers Power Company. I would like to thank the Subcommittee for the opportunity to share with you some of our views on the state of employee benefit plans. Consumers Power Company is a utility serving 1.2 million gas customers and 1.3 electric customers in the State of Michigan. We have approximately 12,500 employees and we maintain a final-pay pension plan, a savings plan and an Employee Stock Ownership Plan. In addition, the Company provides health care insurance and a contributory life insurance program.

We strongly believe that the keystone of retirement security is the defined benefit pension plan. The ability to fund in advance provides assurance and security to employees. In our Plan, assets presently total approximately $500 million to insure payment of future pension benefits. The encouragement of pre-funding by the Congress through current tax deductions has had the effect of companies backing up the retirement promise with assets to the extent of over $900 billion. This is far superior to a pay-as-you-go pension system wherein the pension promise is based only on the continuing existence of the employer. If Congress for whatever reason, whether it be short term revenue or perceived social good, removes the ability of companies to pre-fund totally or in part the pension promise, it will surely erode employees' faith in the private pension system just as their faith in Social Security has been eroded as a result of inadequate funding.

One example of Congressional action in the pension area was the $90,000 cap on annual pension benefits, introduced in TEFRA. While it was bad enough then as a cap for a limited number of years, Congress has just extended the $90,000 ceiling beyond the former period. The Social Security Administration has projected that in 20 short years the Social Security wage base will be $150,000 per year. If this happens, most employees will have their pension benefit limited. One perhaps unrecognized effect of the ceiling is the inability of employers to fund for future increases now which may leave plans underfunded and require larger contributions at a later date. A more apparent problem with the ceiling is that the $90,000 ceiling is for retirement at age 65, if an employee retires earlier the limit is reduced proportionately to a maximum of $75,000. This ceiling also has the effect of encouraging unfunded and unregulated pension arrangements, which provide no security for affected employees. This erodes employees' confidence in the private pension system. We strongly urge this Subcommittee to recommend the reinstatement of the ERISA indexed ceiling which was adopted after an extended period of almost 10 years of public consideration.

Based on IRS statistics, companies are cancelling defined benefit pension plans in record numbers. In my opinion, the primary reason for this appalling national trend is the seemingly endless additional administrative burden put on companies who maintain pension plans. There is no stability or certainty anymore. In our case, we have had to amend our plan every year since ERISA became effective because of changed law or regulations. It is extremely expensive to change a plan, not for additional funding but for what I would call administrative expenses. An employer has to use the not inexpensive services of at least an actuary and attorney to draft amendments which must then generally be submitted to the Internal Revenue Service for approval. It is also costly to the Service to process such plan changes. An often overlooked cost is the communication of plan changes to employees. Summary Plan Descriptions or Pension booklets must be reprinted and distributed to all employees. The almost constant

required changes result in hopeless confusion on the part of employees and further erodes their faith in the private pension system. Several recent examples come to mind. Just last December we notified our employees that if they were single they had only until the end of the month to name a beneficiary under option payouts in the Pension Plan, as prescribed by TEFRA. We also amended our Plan to comply with that law. Now Congress has completely reversed that section of TEFRA. So we have to again tell all our employees. Another example is the mandatory withholding for Federal income tax from pension payments and the annual communication effort required. This provision of TEFRA has, from our experience, caused untold confusion among our elderly pensioners, for very little revenue to the Treasury. A third example is the recent IRS ruling on the manner of calculating an estimated Social Security benefit in integrated plans. The Service is requiring plan amendments by the end of this year to reflect the new ruling. We will again have to amend our Plan and inform our employees thus adding to their confusion and cynicism.

In our opinion it is no wonder that many employers are simply saying "enough is enough" and ending their defined benefit plans. Incidently, the Pension Equity Act of 1984 now before the Congress will certainly accelerate this trend.

If an employer replaces a defined benefit plan with a defined contribution plan, this has the opposite effect from what Congress intended. The employees will be the losers. The defined benefit plan, particularly a final pay plan, would provide a much larger retirement benefit to employees because it is related to their last years of earnings rather than contributions based on a percent of pay which obviously is much lower at earlier ages. Also, the investment risk is shifted to employees who can less afford it than employers.

In the area of capital accumulation plans, like our savings plan in which the employees' contributions are matched on a 50% basis by the Company, we strongly believe that the annual cap of $30,000 should be eliminated and the original indexed formula of ERISA should be reinstated. The longer such artificial limit remains in effect, the more employees it may affect. The limit is not on company contributions only but also includes a portion of employees' voluntary contributions on which they have already paid income tax.

The ability of employees to enter into salary reduction arrangements with their employers as provided in Section 401(k) of the Internal Revenue Code has a strong positive impact on employees' participation in defined contribution plans. I know that our employees from all salary ranges have increased their participation in our Plan. There is also not a significant difference between the contribution level of the lower 2/3 group and the upper 1/3. We applaud Congress for encouraging savings and hope that such incentive will be continued for the beneficial long term effect on our Country's pool of capital.

In the area of health care, we are aware that proposals have been made to Congress to limit the tax deductibility of employer costs, i.e., $900 for an individual and $2,040 for family coverage, with the actual cost over the limit treated as imputed income to employees. While this may result in a short term increase in tax revenue, we believe the long-term effects are deleterious, unnecessary and counter-productive. It is well known that health care coverage is the benefit employees value the most. If a cap is adopted on employer deductions, it could very well become the maximum amount employers would pay, if for no other reason than to avoid the additional administrative burden of handling imputed income.

The ultimate result could be higher overall health care costs if employees had to purchase individual policies rather than having the risk spread over a larger group. Shifting the risk to employees does not increase their faith in employer benefits.

In the area of life insurance which is a common benefit offered to employees, the $50,000 limit is long over due for increase. Two times pay is not uncommon for plans today which means that employees paid $26,000 per year find themselves with unexpected imputed income. They do not understand the logic of the limit when all they are attempting to do is provide a nominal benefit for their families. We strongly urge the Subcommittee to consider indexing the $50,000 so that it will be a more realistic limit in today's environment.

In conclusion, please let us not squander our energy and talent on trivial issues, but keep in mind the goal of both employers and Congress - to provide security for all employees both while employed in the event of serious medical need or death and also especially in retirement. We must not further erode the faith of employees in the private retirement system that unfortunately we see has happened in the Social Security System. Please don't help shorten another leg of the retirement stool.

Statement For The Record

Hartzel Z. Lebed

President, Connecticut General Life Insurance Company

and Executive Vice President, CIGNA Corporation

Hearings on Fringe Benefits

Subcommittee on Taxation and Debt Management

Committee on Finance

United States Senate

July 26, 27 and 30, 1984

Statement For The Record
Hartzel Z. Lebed
President, Connecticut General Life Insurance Company
and Executive Vice President, CIGNA Corporation

CIGNA Corporation, formed in 1982 through the merger of Connecticut General and INA, is the second largest stock insurance company in the United States, with over 45,000 employees worldwide, and nearly 40,000 employees in the United States. CIGNA's Employee Benefit and Financial Services Group provides life and health insurance products, pension and retirement savings products and investment vehicles, as well as related services to employers and individuals. We are the fifth largest commercial insurer in the medical coverage marketplace, second largest in dental insurance, and first in long-term disability coverage. We insure over 5 million employees and their dependents for medical coverage. We manage over $15 billion in pension assets, representing over 20,000 retirement plans that cover over 1 million individuals. My statement reflects CIGNA's views both as a major provider of employee benefits and as an employer sponsoring a complete program of benefits for its own employees.

We commend this Subcommittee's initiative in holding hearings on the important subject of fringe benefits and the tax policy issues that relate to them. The Tax Equity and Fiscal Responsibility Act and this year's Deficit Reduction Act made numerous and significant changes in the federal tax laws that affect employee benefits. These changes were made primarily because of revenue considerations, and, in many cases without sufficient understanding of the issues involved. Many members of Congress have indicated that proposals to reduce or further limit the

favorable tax treatment of employee benefits will be seriously considered in the next Congress. These hearings are an important opportunity for constructive dialogue and education on the social and ecomomic purposes for employee benefits, their distribution throughout the workforce and the true costs and value provided by these benefits. CIGNA believes there is a pressing need at this time to develop a comprehensive and cohesive long-term national policy on employee benefits. Therefore, we appreciate the opportunity to participate in the hearings.

This statement addresses four questions raised by the Subcommittee in the announcement for these hearings:

1. Do employee benefits serve any social and/or economic purposes?
2. Are employee benefits available and received by workers at all income levels?
3. Would employee benefits continue to be provided if fully taxed?
4. Can workers provide these benefits as well if their employers do not provide them?

Social/Economic Value of Employee Benefits

Employee benefits, although known for many years as "fringe benefits", have evolved into something much more than a peripheral component of employment. They now represent an important form of compensation, which helps employers attract and retain productive employees, offer valuable services in an economical and efficient manner, and meet important social needs for health and income protection and family security. Through

changes in the economic environment, demographics and family structure, and changing perceptions of the role of government in preserving the social fabric of America, employee benefits have evolved as the most important single non-wage vehicle for the long-term economic security of workers and their families.

Access to health care, through adequate health insurance benefits, is an important and long-standing social goal of our nation. Health care is considered to be a vital necessity by the American public. In the minds of most people, it is not a question of whether benefits will be provided, but rather how and who will provide them. The widespread availability of private health insurance benefits removes a significant cause of economic uncertainty from an individual's future, ensuring greater worker productivity and overall well-being. The greatest single fear of the individual American is that of catastrophic medical expenses; a corresponding comfort is achieved when American workers know that their employers have established and maintain properly structured and cost effective health benefit programs.

Equally long-standing has been the national commitment to providing incentives for private pensions and capital accumulation plans. They are critical components in the three-legged stool of retirement income security -- Social Security, private pensions and individual savings. In addition to concerns with health care, employees are concerned about adequate retirement income. These concerns drive much of their savings and investment behavior. As it is, we save too little as a nation, and

individuals often wait too long before starting to save for retirement. We need greater encouragement for savings and investment, not less. The advance-funded private pension system provides needed long-term funds for capital formation. These are not insubstantial sums, and are particularly important given the influx of foreign investment in the U. S., which has begun to shift the balance of ownership of productive capacity from U. S. to foreign firms.

Distribution of Employee Benefits

An appropriate goal of employee benefits tax policy is, and should continue to be, the broad distribution of benefits throughout the workforce. This goal is being achieved. Recent research findings complied by the Employee Benefit Research Institute (EBRI) indicate that benefits are widely distributed across all income levels throughout the workforce. In 1983, 76 percent of all workers covered by an employer pension plan under ERISA standards, and 78 percent of all workers covered by an employer group health plan with their employer, earned less than $25,000. These findings are detailed in EBRI's statement and we urge the Subcommittee to consider them carefully.

More specifically, at CIGNA benefits are available generally to all regular employees without distinction of age, sex, marital status, or salary. Virtually all CIGNA employees enroll for the medical insurance plan or an HMO and share in the cost of these benefits. The CIGNA pension plan automatically includes all employees, including temporary

employees. We also provide a matched savings plan in which all permanent and temporary employees are eligible to participate after one year of service.

To be sure, the current system of employer-provided benefits could be further improved. In the pension area, for example, there are gaps in coverage, particularly in certain industries and among mobile employees. We believe broader pension coverage should be encouraged by providing incentives specifically targeted to these problem areas. Similarly, where abusive situations are identified, they should be eliminated through carefully targeted measures, either legislative or administrative. But I do emphasize again that the privately provided employee benefits system is generally working well, and as Congress intended. Specific problems should be addressed by specific solutions.

With respect to pension benefits particularly, it is also important to note that the private pension system is still maturing. The importance of private pensions as a source of retirement income will increase significantly in the future. Research sponsored by the American Council of Life Insurance (ACLI) and conducted by ICF, Inc. indicates that benefit receipt at age 67 for the group aged 35-44 in 1979 will be 25 percent higher than benefit receipt for the group aged 45-54 in 1979. Pension benefit levels for this age group will increase similarly. These findings are consistent with research conducted by EBRI.

Changes in the Tax-Status of Employee Benefits

The long standing national policy of providing incentives through the tax laws for employer-sponsored employee benefits has encouraged the growth of the private employee benefit system. Removal or limitation of the tax incentives would have the following effects:

- Substantially raise the cost of providing benefits to either employer or employee or both.

- Cause employers to cease offering some benefits, with the result that employees will have to obtain coverage individually at much higher cost.

- Increase demand for government provided public benefit programs, which will probably not be as effective or efficient.

In the health care area, the widespread availability of private health insurance reduces government expenditures. As an example, through recent legislation, Medicare became the secondary payor for actively employed individuals over age 65. High medical bills, lengthy disabilities, or the death of a spouse all represent financial burdens that can quickly eliminate an individual's personal resources and require government's financial assistance if no other support is available. Any significant reduction in the level of private sector health benefits would certainly be be accompanied by a demand for government to increase its role in financing these benefits.

Modest levels of employee cost-sharing contribute to containing health care costs. If, however, changes in the tax laws encourage employers to require excessive employee cost-sharing for health insurance benefits, many employees, especially low income employees, will drop their benefit packages completely. This will increase costs for other insureds through adverse selection, and for all Americans if health care services are not paid for by those who use them.

Employer Provided Benefits vs. Individually Purchased Benefits

We believe that employer-sponsored programs provide benefits in the most efficient and economical manner. In the area of health care benefits, the group insurance mechanism is the most cost-effective way to provide a variety of benefits. Through the financial mechanism of group insurance, certain personal costs which generally fluctuate widely by individuals, are translated into moderate level expenses funded by employers and employees and payable on a regular basis. In group insurance, risk is transferred from the employer to a third party, thus protecting the employee from the adverse consequences of employer insolvency. The economies of distributing benefits through a large employer group reduce the cost for all individuals, making insurance affordable for most of the American public. The employer acts as an advocate for the employee, and is better able than the individual to negotiate cost-effective benefit plan design and to control claim costs. Administrative costs for group plans are normally less than one-third of the cost of similar individual plans.

Because the cost of employee benefits is a direct cost of doing business, employers are very interested in holding down the costs of providing benefits. Throughout the nation, employers have formed business coalitions to promote cost containment. CIGNA is supporting the efforts of these coalitions through a two-year $1 million matching grant program. In addition, we offer affordable benefit programs designed to contain costs. As an example, Connecticut General's REMEDI plan design provides first dollar coverage for several cost containment benefits, while subjecting higher cost or over-utilized services to coinsurance and deductibles. Overall plan costs are controlled through coordination of benefits and reasonable and customary fee limitations. The flexible benefit plan and flexible spending account are other examples of benefit design to contain costs. These types of plans create an incentive for employees to utilize their entire benefits package more judiciously by making trade-offs among the individual benefits in the package. Flexible benefit programs have the potential to control costs in a way that does not deprive the employee of any benefits which she/he may individually perceive as essential. The employee thus becomes a more active participant in controlling his or her benefit costs.

Well designed health benefits encourage preventive health care and enable individuals to secure assistance at a time when it can be done economically with a minimal loss of productivity. An individual without health benefits is more likely to delay soliciting medical/dental assistance until the health situation is so severe that it becomes life threatening or more expensive to treat.

In the area of pension and retirement savings benefits, employer-sponsored plans are not only more cost-effective because of the economies of group coverage, but, for many lower and middle income employees, savings for retirement through an employer-sponsored plan is the only way to assure that an adequate retirement income will be available. Social Security is intended to provide only basic income replacement and needs to be supplemented by private pensions and individual savings. Data compiled by EBRI indicates that pension coverage constitutes the major source of savings for more than half of current pension participants.

Finally, the private sector can adjust to the needs of individuals and accommodate them much more quickly and with more flexibility than public programs. Thus, for example, the emergence of coverage for alternative health delivery mechanisms, along with alternative financing mechanisms and flexible benefits packages recognizes the differing needs in our more mobile and diverse workforce.

A National Employee Benefits Policy Is Needed

We strongly believe that now is the time to begin a full and open debate on employee benefits issues and to develop a national employee benefits policy. The issues involved in such a policy are very complex. We urge that they be better understood before any additional employee benefits legislation is enacted. Some of the issues which need to be further explored are:

- The interrelationships between public and private programs.

- The true costs of employee benefits programs:

  - The tax expenditure estimates for employee benefits programs are frequently misunderstood or misused. For example, the large tax expenditure for pensions seriously overstates the amount of revenue which would be gained if the tax deduction for employer contributions to pensions were eliminated.

  - There is much concern over "erosion" of the taxable wage base due to the growth of tax favored employee benefits. It is necessary, however, to clearly distinguish among the growth of legally required employer payments, fully taxable employee benefits, tax deferred benefits and tax exempt benefits to understand the extent of tax base erosion.

- The economic contribution of private pension plans to capital formation.

- The social goals of employee benefits and how well they are being met.

In the past few years, much needed research on these subjects has been undertaken and is beginning to yield results. Too often, employee benefit legislation has been enacted in a data vacuum. We strongly urge members of Congress to proceed cautiously in considering any further

legislation affecting employee benefits. We offer our assistance. Our interest in a national employee benefits policy is not new. As indication of this interest, we are a co-sponsor this year of a series of four roundtable discussions, sponsored by the Government Research Corporation, on the topic of retirement policy and U. S. tax policy. The purpose of these discussions is to begin a national debate on retirement policy. Participants in the roundtable discussion include representatives from private industry, government policy and academic communities and represent a broad spectrum of views on employee benefits issues.

These hearings represent an important first step along the path we recommend. We look forward to assisting the Subcommittee in its efforts.

2059y

CONSOLIDATED PLANNING CORPORATION
400 COLONY SQUARE - SUITE 525
ATLANTA, GEORGIA 30361
404-892-1995

PATRICK G. RENN
SENIOR VICE PRESIDENT

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

by Patrick G. Renn

It is my professional opinion as a practitioner in advising closely held corporations in the area of qualified retirement plan implementation that the present system of providing employees with retirement benefits at the expense of the employer would not survive in its present, generous state were it not for the income tax benefits available to the employer who implements such plans. If taxes are raised, as a result of limiting or denying tax deductible status to qualified plans, serious damage to the financial well being of millions of Americans will result. The present enormous burden on the Social Security system would be greatly increased and lead to serious social unrest and economic dislocation. Economic security for our retired workers is unquestionably a desired social goal and should be encouraged.

THE CONSTANCE BULTMAN WILSON CENTER
FOR
ADOLESCENT PSYCHIATRY

PSYCHIATRIC HOSPITAL FOR ADOLESCENTS
E. W. COOK INSTITUTE OF PSYCHOTHERAPY
WILSON ACADEMY

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment,

We at the Constance Bultman Wilson Center believe that it is our responsibility as employers to meet the basic needs for financial security. Accordingly, we offer the following benefit package to all of our employees:

A comprehensive group health package, consisting of life, health, and dental insurance, which consists of twice the annual salary for life insurance; $100 deductable with no limit for health insurance; and no deductable for diagnostic, oral exams and cleaning, and $50 deductable for all other dental insurance. All employees are covered 100% if single, and only charged $25.95/month for family coverage.

We also provide long-term disability insurance at no charge to the employee. This plan is provided to all full-time employees regardless of race, sex, handicap or amount of salary earned.

We have chosen to provide benefits rather than cash wages because we not

only consider the benefits to be essential to the economic welfare of our employees, but we also know that an individual cannot afford the cost of individual health insurance. By combining our employees into a group plan, we are able to provide complete health coverage for them and their families with very reasonable health care costs.

This factor, added to the tax incentives provided by existing law, allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits, through changes in the tax law, will mean that we will not be able to provide the same level of protection in the future.

If you are considering increasing the cost of these benefits, it can only mean that these costs will be reflected in the premium we have to pay, which means an automatic rise in health care costs, which is absolutely contrary to the overall attempt at cost containment which most hospitals are striving to control.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Sincerely,

W. D. Korff

William D. Korff,
Vice President of Legislative Affairs

WDK/ne

STATEMENT OF CONTINENTAL BANK IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at Continental Bank believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer a benefit package to all employees consisting of Major Medical, Health Maintenance, A.D.&D., Long Term Disability, and Life Insurance. In addition to this package, we provide two weeks sick time, holiday pay and vacations annually, as well as numerous education opportunities. Currently we are adding an Employee Stock Ownership Plan, which will compliment our Profit Sharing Plan, aiding our employees upon their retirement. This benefit package is available to our entire staff, which consists of 77.8% women, and 19.3% minorities. Eighty-three percent of our staff participate in the health plans available, while an even larger percentage take advantage of the educational and other benefits.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapdily rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. Presently, we have

engaged a consultant to look into our health, life and Long Term Disability Plans, so that we may add containment features to help achieve this goal. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Please refer to attached data being forwarded to Dallas L. Salisbury, President of Employee Benefit Research Institute, 2121 KST; N.W., Suite 860, Washington, D.C. 20037.

Sincerely,

L. F. Clark
Sr. Vice President & Personnel Director

LFC:cyg
Enc.

Company Name Continental Bank ☐ All Employees # 580 ☐ Salaried Only # _____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $ (Average)	Employees Rec. Benefits
Total Benefits	____	____	
Legally-Required Employer Payments	____	____	
Social Security	500,185	862	580
Unemployment Compensation	46,851	81	
Workers' Compensation	21,905	38	
Other Payments	____	____	
Discretionary Taxable Benefits	____	____	
Time Not Worked (Vacation, Holiday, Sick Time)	1,010,580	1861	543
Rest Periods	____	____	
Other Taxable Benefits	____	____	
Discretionary Tax-Favored Benefits	____	____	
Defined Benefit Pension Plans	____	____	
Capital Accumulation Plans	____	____	
Disability Plans	29,057	290	100
Group Health and Life Insurance	370,261	908	408
Active Workers	370,261	908	
Retirees	____	____	
Other Tax-Favored Benefits (Profit Sharing)	125,000	321	390
Education	163,000	281	580

____

Company Name Continental Bank

☐ All Employees # 580
☐ Salaried Only # _____

TABLE 2

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaried	Employer Payments as Percent of all Benefits
Total Benefits	____	____
Legally-Required Employer Payments	____	____
Social Security	5.95	22.07
Unemployment Compensation	0.56	2.07
Workers' Compensation	0.26	0.97
Other Payments	____	____
Discretionary Taxable Benefits	____	____
Time Not Worked	12.03	44.58
Rest Periods	____	____
Other Taxable Benefits	____	____
Discretionary Tax-Favored Benefits	____	____
Defined Benefit Pension Plans	____	____
Capital Accumulation Plans	____	____
Disability Plans	0.35	1.28
Group Health and Life Insurance	4.41	16.33
Active Workers	4.41	16.33
Retirees	____	____
Other Tax-Favored Benefits (Profit Sharing)	1.49	5.51
Education	1.94	7.19

Company Name Continental Bank

☒ All Employees # 581
☐ Salaried Only # ____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1983

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999	____	____	____	____	____	____
10,000- 19,999	____	____	____	____	____	____
20,000- 49,999	____	____	____	____	____	____
50,000- 99,999	____	____	____	____	____	____
100,000 or more	243	100%	____	____	183	100%
Total	243	100%	____	100%	183	100%

COUNTRY BOY WATERBEDS,INC.
1900 Arthur Street
Louisville,Ky 40217

July 28, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26,27,and 30 by the United States Finance Commmittee, Subcommittee on Taxation and Debt Management.

By: Mr.Phil Logsdon, Pres.
Country Boy Waterbeds,Inc.
1900 Arthur Street,
Louisville, Ky 40217

As the C.E.O. of Country Boy Waterbeds,Inc., a medium sized regional furniture retailer, I wish to state for the hearings our position on private employee benefit plans.

We feel that all our employees,after serving with our organization for the short minimum period, value their benefit plans which consist now of group life,disability,medical and profit sharing benefits on a non-discriminatory basis.

We feel that these plans do serve a useful purpose to our employees and for that reason, we are probably more generous with them than others. We instituted our plans primarily to boost employee morale and reduce their uncertainty feelings about the Social Security system's future ability to provide for them. Any tax incentives were not considered. We enjoy high productivity from our employees because we do care.

They value the benefits. We don't think IRA plans alone can do what we provide now and hope to provide in the future. Our plans don't reward owners or officers diproportionately since we pay all of our employees very well. That is why we are successful.

COUSAR ASSOCIATES, INC.
Employer-Employee Benefit Plans
POST OFFICE BOX 18735
ATLANTA, GEORGIA 30326
TELEPHONE (404) 266-1166

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

J. Burton Cousar

JBC:fc

cc: Mack Mattingly
Sam Nunn
Wyche Fowler

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: J. Burton Cousar
Cousar Associates, Inc.
P. O. Box 18735
Atlanta, Georgia 30326

It is understood that a number of Senators and Congressmen feel that the private employee benefit plan system no longer needs or deserves any of the tax incentives which currently support the system.

This is absolutely incorrect. Without the current tax incentives, the vast majority of plans which this firm services would quickly be terminated.

We are a small service firm providing actuarial and administrative services to hundreds of small corporations. Without tax incentives, the business owners of these corporations would terminate their private pension and profit sharing retirement plans and would quickly take the attitude -- let the Government do the retiring, I'll just take care of myself.

These hundreds of plans are serving employees well by building retirement monies to supplement their Social Security and personal savings.

The old three legged retirement stool of personal savings, private pension and Social Security can really be better defined today as a two legged stool - private pension and Social Security - for with today's inflation and tax rates, the average retiree that we interview has little or no savings, and in many cases, does not even own his own home free and clear.

Without the tax incentives and deductions to the small business owner, in our opinion, thousands upon thousands of small business plans would be quickly terminated.

The Internal Revenue Service is doing a magnificent job of attempting to drive the small businessman out of adopting a private retirement plan through the tremendous amount of bureaucratic paperwork and form filing to maintain a plan. Hence, the only real incentive left is the tax incentive.

These comments are not only personal observation, but the result of personal conversations with many, many corporate owners whose retirement plans we service.

JEROME M. COOPER FAIA
A.A. TAFT CARRY AIA
ROGER W. DODSON, AIA
JOYCE P. McGILLOUGH

TED S. GLAM AIA
RICHARD B. HALL AIA
ARA KEYFER AIA
SAMFORD M. NELSON AIA
RAYMOND W. YOUNG AIA

WILLIAM A. RICE, JR. AIA

ROBERT P. BERESKA AIA
R. MIKE NICKLES AIA

KEVIN R. CANTLEY AIA
WILLIAM DYER AIA, CSI
D. ALAN MOUNT AIA
PETER J. POLITES AIA
THOMAS E. ROBBINS AIA
LUTHER H. WEAVER AIA

August 2, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg.
Room SD-219
Washington, DC 20510

RE: Taxation of Employee Benefits
Hearing Dates: July 26, 27, & 30, 1984

Dear Mr. DeArment:

Our firm strives to maintain an equitable employee benefit program. The program provides protection the employee might otherwise never be able to afford. Tax incentives now in existance make it attractive to provide such coverages as medical, dental and life insurance plans, along with pension and other programs designed to help our employees obtain vital coverage at a minimum cost. These programs benefit all our employees and their families, without regard to income level.

The free enterprise system has built an effective, an efficient arrangement covering the needs of employees through the employee benefit system. In our opinion, this system is far superior to any government program which would replace it. Because the system is of such vital importance to so many, it should not be dismantled in the name of greater tax revenues. The continuation of life as we know it in this country rests to a large degree upon the free enterprise system. Tampering with the stable, well-developed employee benefit program that we now know can serve only to weaken the economy.

COOPER CARRY & ASSOCIATES, INC. ARCHITECTS
3520 PIEDMONT ROAD, N.E. ATLANTA, GEORGIA 30305-1595 404-237-2000

In conclusion, we encourage the continuation and strengthening of the employee benefit system now in existance, and will support any legislation supportive of this vital and integral facet of the free enterprise system.

Sincerely,

COOPER CARRY & ASSOCIATES, INC.

Joyce P. McCullough
Business Director

cc: Mr. W. D. Blalock, FLMI
Senior Vice President
Pilot Life Insurance Company

ROBERTA COPELAND
ROUTE ONE
PAINT LICK, KENTUCKY 40403

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment,

Consistent with your requirements, I am submitting this letter and the attached statment to be included as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Roberta Copeland

Roberta Copeland

August 9, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management. By Roberta Copeland

Private employee benefit plans do serve a useful benefit to more than highly paid employers. I am a single parent of two teenagers with an annual income of below 14,000 dollars. I have worked for 19 years as a Registered Nurse and at this time I'm working in a physicians office. It has given me a feeling of some security to know that my employer has invested some amount in a retirement plan for me. If this were not of some benefit to him, he would more than likely stop this benefit.

Our Social Security system needs all the help in can receive, you sir, will not depend on it for your retirement and I am afraid I will have to go on the state and federal dole if it is all I have to depend upon.

I suggest strongly that you reconsider your thoughts on this matter.

CORRIGAN DISPATCH COMPANY

CUSTOMHOUSE BROKERS • FREIGHT FORWARDERS
LAREDO, TEXAS 78040

TELEPHONE 512 723-4343
BOX 1240
TELEX NO. 763430

July 20, 1984

Senator Robert Dole (R-Kans)
UNITED STATES SENATE
New Senate Office Building
Washington, DC 20510

Gentlemen:

In 1971, our Firm originated a Profit-Sharing Plan. As is the pattern, it was about ten years old before there were advantages palpable and visible to our participants; during the last four years, there have been increasing cases where a participant, or the beneficiary of a participant, has had their life changed materially and substantially due to the existence of this Benefit Program.

Our Firm and the employees of this Firm, i.e. participants of this Plan, want tax laws to encourage this type of fringe benefit. Privately funded employee benefit programs, with current tax incentives to employer and employee alike, are in the best long-term social and economic interests of our country.

In talking to colleagues of ours, we would say that most businesses are operating a Plan of this nature as a tool for stability of employees, and therefore, stability of the firm. A factor constantly in mind is the need to operate under perimeters stipulated by IRS. An intent is that all participants and employees are benefited fairly to insure that the firm remains operative.

It is inappropriate to curtail a private system to seek new sources of Tax Revenue. Independent of the above, our firm maintains a Retirement and a Health Plan. We do oppose changes to current fringe benefit plans.

We are aware of projected hearings to discuss the role of Employee Benefit Plans and your participation in these hearings. This letter records our deep concern on the possibility of their value being debated; this letter records our opposition.

Our firm has operated on the U. S.-Mexico Border for the past sixty years; we represent various Mexican Firms but our primary customers are U. S. Importers.

Very truly yours,

CORRIGAN DISPATCH COMPANY

E. H. Corrigan

EHC/hsn

cc: CORRIGAN DISPATCH COMPANY
Brownsville, TX 78520

cc: LINCOLN NATIONAL INSURANCE
Attn: P. E. Kennedy

1984 AUG -6 PM 12:47

CORROON & BLACK, INC.

2911 Second Avenue
P.O. Box C-34201
Seattle, Washington 98124
206-583-2300 Telex: 32-0215

August 2, 1984

The Honorable Bob Packwood
The United States Senate
Committee on Finance
Subcommittee on Taxation & Debt Management
SD-219
Dirksen Senate Office Building

Re: Hearing on Fringe Benefits

Dear Senator:

It seems to be a crusade among Congress to find new sources of tax revenue and apparently Employee Benefits is the latest target. Hopefully, Congress and the Treasury will thoroughly understand the impact as they begin to place these restrictions on the economic security of American workers and their families.

This letter will be general in nature because I'm sure you have received thousands of specific comments from various elements within the insurance industry. With that in mind, I would like to submit the following questions or comments:

1) For years, the private sector employers, through favorable tax treatment and other incentives, have provided for the bulk of our health and welfare programs. While the system is not perfect, how does its record compare with Federal programs, such as Social Security and Medicare ?

2) There is no question that the health care industry has witnessed unprecedented increases in cost. Most employers were willing to absorb these increased costs because there remained a reasonable tax treatment of employee benefits. Reduce these incentives and you will see a shift back to the public sector, which is probably willing, but certainly unable, to handle this new burden.

CORROON & BLACK, INC.

3) We have just recently witnessed the IRS's "infinite wisdom" by discouraging flexible spending accounts, one of the most significant cost containment approaches introduced in the employee benefits field. Hopefully, this type of philosophy will not continue to work on the minds of Congress in reviewing the total employee benefits spectrum.

One final suggestion: Seek advice from those people who have had practical experience in the employee benefits field before reaching any decisions. Avoid short-term popular decisions. And remember, if you discourage employers from providing these programs, you will have on your hands the responsibility to operate and fund these health and welfare programs.

You or some of your colleagues might be critical of the current status of the health care industry in the private sector, but please consider the alternatives available in the public sector. The comparison results in only one conclusion: Don't destroy the employer-sponsored programs! If anything, encourage their expansion.

Sincerely,

Richard E. Fitzgerald, CLU
Manager, Employee Benefits

REF/rmb

Croda

Croda Inc
183 Madison Avenue
New York, N Y 10016
212 683-3089

1984 AUG 10 AM 10:30

August 6, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D.C. 20510

Dear Senator Packwood:

It has been brought to my attention that a number of proposals to reduce the favorable tax treatment of employee benefits are being considered by the Senate Finance Committee.

I would like to point out to you that employee benefit plans are the most efficient and cost effective way the market has devised for delivering economic security to employees. They benefit employees at all wage levels, not just at the executive level. Preferential tax treatment for these plans has encouraged their growth and is a wise investment in the future security of our nation. If tax policy ceased to support employee benefits, additional strain would inevitably be placed on public institutions and programs (ranging from community hospitals through the Social Security retirement and disability income systems). Congressional tax policy should continue to foster employee benefits and not just regard them as an untapped source of government revenue.

I therefore urge you to actively support favorable tax policies toward employee benefits and would ask you to inform me on how you intend to vote.

Thank you.

Sincerely,

J. M. Cannon
President

JMC:jad

Cuddy Farms

CUDDY FOODS, INC. P.O. BOX 668 MARSHVILLE N.C. 28103 704-624-2171

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg., Rm. SD-219
Washington, D. C. 20510

Re: Public Hearings of July 26, 27, and 30, 1984
Taxation of Employee Benefits

Dear Mr. DeArment:

The management staff of Cuddy Foods, Inc. is of the opinion that the existing tax laws do encourage employers to provide fringe benefits to our employees. It is our feeling that all our employees do benefit fairly at the present time from these current tax incentives.

Our benefits for medical insurance, disability income protection, and group life insurance are uniform for all of our employees. We do not provide these fringe benefits just to the highly paid employee nor only to male employees. All employees are treated equally and fairly with our company-sponsored plan of benefits.

The cost for medical care is now extremely expensive. If the government was to make the cost of medical benefits we provide for our employees as taxable income to the employee and remove the tax deduction from the employer, as an employer we would no longer have an incentive to provide medical insurance, disability income, life insurance, etc. to our employees. It would be much easier administratively to eliminate all fringe benefit plans and to simply increase the hourly rate of pay for our employees to purhcase their own insurance for their own needs. However, the employee does not have the group purchasing power that the employer has. Many individual policies, especially medical insurance do not provide the broad coverage which our group plan provides.

Thus, it is our contention that our employees would not purchase their own individual policies or get as much coverage for their dollar as the employer provides. We feel that our employees would definitely suffer if employer-sponsored benefits do not exist. We feel that employee benefits are essential to the economic security of our employees and their dependents.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

Very truly yours,

CUDDY FOODS, INC.

Vaughn L. Correll
Vice President
Secretary/Treasurer

VLC/ycb

Cuddy Farms

Cuddy Farms, Inc., P.O. Box 247, Marshville, N.C. 28103, Telex 572372, Phone 704-624-5055

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg, Rm. SD-219
Washington, D. C. 20510

Re: Public Hearings of July 26, 27, and 30, 1984
Taxation of Employee Benefits

Dear Mr. DeArment:

The management staff at Cuddy Farms, Inc. is of the opinion that the existing tax laws do encourage employers to provide fringe benefits to our employees. It is our feeling that all our employees do benefit fairly at the present time from these current tax incentives.

Our benefits for medical insurance, disability income protection, and group life insurance are uniform for all of our employees. We do not provide these fringe benefits just to the highly paid employee nor only to male employees. All employees are treated equally and fairly with our company-sponsored plan of benefits.

The cost for medical care is now extremely expensive. If the government was to make the cost of medical benefits we provide for our employees as taxable income to the employee and remove the tax deduction from the employer, as an employer we would no longer have an incentive to provide medical insurance, disability income, life insurance, etc. to our employees. It would be much easier administratively to eliminate all fringe benefit plans and to simply increase the hourly rate of pay for our employees to purchase their own insurance for their own needs. However, the employee does not have the group purchasing power that the employer has. Many individual policies, especially medical insurance do not provide the broad coverage which our group plan provides.

Thus, it is our contention that our employees would not purchase their own individual policies or get as much coverage for their dollar as the employer provides. We feel that our employees would definitely suffer if employer-sponsored benefits do not exist. We feel that employee benefits are essential to the economic security of our employees and their dependents.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

Very truly yours,

CUDDY FARMS, INC.

Vaughn L. Correll
Vice President
Secretary/Treasurer

VLC/ycb

Cullen Bank
Member: Cullen/Frost Bankers. A Family of Texas Banks

Ruth Pharis
Senior Vice President

July 30, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Sir:

It is my understanding that Senator Packwood will be holding public hearings on July 26-30, 1984 concerning the issue of employee fringe benefits. I would like to file a statement for inclusion in the record.

Cullen Bank provides a benfit package to all employees that includes Life, Accidential death, Major medical insurance; paid vacation and sick leave; stock savings plan; retirement and disability benefits; transportation subsidy; and educational reimbursement. These benefit plans are available to all employees regardless of job level, sex, race, age, or religion.

Cullen Bank provides these benefits for several reasons 1.) We want to be competitive in the market for good employees, therefore we match or exceed our competitor's plans. 2.) We want to provide our employees with a measure of security from unknown and unplanned emergencies as well as provide long term security for their retirement.

Sixty-six percent of our employees are women and forty-three percent are head of households. Even though salaries are exceptionally good in Houston, medical costs are also high. These women would be financially hurt by taxing their benefits! The Bank presently assumes all of the cost of life and health insurance and retirement for the employee. This coverage is expensive and I doubt that all our employees would be able to pay for it themselves.

I feel that our employees would be hurt by any legislation that would either tax them on these benefits or would replace these plans

Cullen Bank

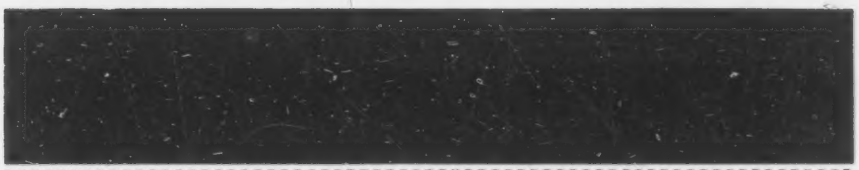
with government sponsored programs. Private enterprise has been concerned about the needs of the employees as well as controlling expenses. I believe this to be the best approach to providing the necessary protection at the lowest cost.

Sincerely,

Ruth Pharis

Ruth Pharis
Personnel Director

RP/tdt



CUMBERLAND MUSEUM
AND SCIENCE CENTER

800 Ridley Boulevard
Nashville, Tennessee 37203-4899

(615) 259-6099

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Mr. De Arment:

I write to provide information that will be helpful in the Senate's current review of Taxation of Employee Benefits, July 26, 27, 30. Our Museum provides its employees with fully paid health insurance. We feel that these benefits should not be taxed as they are an important element of current security in the same way IRA Accounts provide for retirement security. Our Museum operates on a very limited budget and would find taxing such benefits an added burden which might lead to reduced funds available for fully paid coverage.

Furthermore, it does not make sense for government to encourage such employee benefits for the past years and then begin to tax them and discourage their continuation. I know that not all legislation is based on logic, but also competing needs and a balanced budget is a national need. I do think other solutions less damaging to our employees could be found.

As a starting point you could examine the $50 million dollars the pentagon spends on its military bands.

Sincerely,

William Bradshaw

William Bradshaw
Director

WB/ac

Cutting Tools Inc.

4050 Shelbyville Rd. P.O. Box 7743
Louisville, Ky. 40207
(502) 896-2353

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Also, the following is submitted relative to the above and in direct relation to same by

Cutting Tools Inc.
4050 Shelbyville Road
Louisville, KY 40207
Robert L. Rupley, Jr. Chairman

and pertains to our Company Profit Sharing Plan which has been in effect for several years. The feeling of our Company, Board of Directors, and Stockholders regarding this plan is as follows:

1. The plan basicly serves a very social and economic purpose as it provides financial security, employee interest in financial growth, vested ownership of savings and personal interest in the Company's financial gain and stability.

2. Since participation in the plan is directly proportional to each qualifying employee's earning capabilities within their own job status, benefits are based on an accurate and fair basis.

3. Due to the deferment of tax obligations, the plan can have healthy growth and provide incentives to survive and continue with interest to the employee, offering incentive to stay with the Company and continue to participate.

4. Since personal IRA's and IRA have definite limits of annual participation, the profit sharing plan offers the employee additional incentive to save and provide for the future.

Cutting Tools Inc.

5. The elimination of such plans and incentives would have a very noticable and definite adverse effect on the employee's involved and with the problems and complications along with the uncertainty of the Social Security System, would take away and eliminate the security, protection and insurance, currently provided the employee involved.

6. As for "Grass Roots" support, any employee currently participating would have considerable concern over the loss of such programs which contribute annually to their financial security for the future.

Speaking personally, based on knowledge of my own Company, I can assure you that employee loss of such a program would have major affects and reprocusions regarding their future financial security, annual gain and incentive to remain in the employment of our Company.

It is very hard for me to realize that anyone could be interested in destroying any financial security program that benefits employees and people who depend on someone else to help them accumulate finances for the important years ahead.

Please consider this letter as a personal request for your assistance.

Sincerely,

Robert L. Rupley, Jr.

RLR:nf

ROBERT J. QUIRK
Mayor

City of Cuyahoga Falls
Office of The Mayor
2310 Second Street
Cuyahoga Falls, Ohio 44222

Phone (216) 923-9921

August 7, 1984

STATEMENT OF THE CITY OF CUYAHOGA FALLS IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26, 27, and 30, 1984

We at the City of Cuyahoga Falls believe that it is our responsibility as employers to meet the basic needs of employees for financial security. Accordingly, we offer the following benefit package to all of our employees: Health insurance for individual and dependents, noncontributory insurance for hospital expense benefits, surgical procedure benefits, physicians' visits, hospital visits and supplemental accident benefits, and contributory major medical expense benefits. In addition, we offer a group dental health program for all employees and dependents as well as life insurance for employees. We provide this benefit package to all full-time employees which number 450. Coverage is provided to management and nonmanagement employees and includes women and minorities. The plan does not discriminate in favor of highly paid employees. Regardless of salary level all employees receive the same benefits including $10,000.00 life insurance.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the

economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to th, tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Changes in the tax law that increase the cost of benefits will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. We are constantly studying this problem and evaluating solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code providing incentives to employers and employees to commit their dollars to this purpose.

Sincerely,

Robert J. Quirk
Mayor

RJQ/pjb

THE DANIEL BOONE CLINIC

HARLAN, KENTUCKY 40831

July 30, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Herbert W. R. Emrich

HE/dws

Enclosure

July 30, 1984

Submitted as part of the record of the Hearing on Employee Fringe Benefits held July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

--By Herbert W. R. Emrich

There is no possible way the very large number of private employee benefit plans can continue without tax incentives. Organizations I am associated with would immediately discontinue their plans and use the savings for higher pay and other fringes which would completely jeopardize the average working person's hope for a reasonable retirement income.

The highly paid persons would opt for other tax pay shelters and deferred income plans with their share. However, the lower paid would pay higher taxes and spend it prior to retirement. They would be more apt to become indigent when no longer able to work, thus becoming "wards" of the state or very expensive government programs.

Social Security was never intended to totally take care of one's retirement needs and this has become more evident as the years go by.

There is more "grass roots" support for private retirement plans than our leaders are aware of. The citizens want the private employee benefit plans to stay in tact. They also appreciate the modest I.R.A. provisions and hope our Social Security System is handled in a more actuarily sound manner with good business principles.

August 1, 1984

Mr. Roderick A. DeArment,
Chief Counsel
Committee on Finance, Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

As an employer eager to provide an environment that will attract and retain qualified and capable employees we are continually monitoring our compensation and benefits programs. These areas are perhaps the most obvious, if not important, factors in creating a total package of interest to current and prospective employees.

We are a relatively small employer with approximately 1,000 employees. We operate with divisions in four remote locations from our Corporate headquarters and also have a field service organization of 150 employees located throughout the country.

We are a growing company, one that has gone through some difficulties in the past, and who has in the last few years been able to once again increase our revenues, our profit and our employee base.

We, because of our size, cannot be staffed with numerous technicians in the Human Resource function with specific responsibilities in very narrow areas of the field.

When attempting to institute changes in pension plans, incentive plans, compensation plans, benefit packages, etc. we are often times forced to enlist the services of outside consultants and counsel. Changes which are beneficial to both the employee and the company at times must be reconsidered when realistic costs for installation are established. Most changes, in order to be effective must be; communicated to employees, usually require changes to existing computer systems, and must be cost effective.

With recent proposed and implemented regulatory, reporting, and legislative changes, this process of change or enhancement to employee benefit programs has become almost impossible. Smaller companies cannot keep up with the changes and out of fear of non-compliance usually decide to take no actions on enhancements. Employees are more confused than ever. Simple administration of benefit plans has become a job much greater than even two years ago.

About a year ago our company decided to address several issues which we had identified in the area of employee benefits such as:

- The present economic conditions precluded any increased benefit expenditures for the short term. In fact, justifiable cost reductions were to be sought.
- We needed to be competitive.
  - Business and demographic changes were taking place.
  - We did not want to be at a disadvantage when recruiting.
  - We needed to be competitive with other high tech companies.
- We needed to spend our dollars in the most efficient and tax effective manner.
  - Cost containment / Benefits design.
  - Efficient funding mechanisms to fit corporate funding philosophy.
  - Tax effective vehicles
  - Pre-tax employee cost sharing for added programs.
  - More tax effective employee stock purchase.
- Established a philosophy of Realignment:
  - Make our present programs more cost effective.
  - Liberalize where competitive deficiencies exist.
  - Strengthen where cost containment needed.
  - Add where tax effective low cost vehicles are indicated.
  - Eliminate programs that are not tax effective and have a low level of participation

- Coordinate where overlapping exists.

- Improve employee understanding and appreciation of program(s).

The following overview or realignment/strategy was then designed and implementation was begun.

Retirement - No changes in benefits design. Funding approach revised to incorporate company philosophy towards "depth of funding" measures.

Profit Sharing - Minimal awards for last two years under incentive bonus plan. Program should be replaced.

Savings - Add 401(k) savings program with matching Data Card contributions, providing pre-tax capitol accumulation opportunities.

Stock Purchase - Several modifications to accomplish more tax effective stock purchase:

. Eliminate current non-qualified plan.

. Add pre-tax stock purchase facility to savings plan.

. Add PAYSOP.

Medical - Strengthen present program by adding cost containment features. Supplement with employee-paid flexible benefit account providing reimbursement for:

Health Care
Day Care

Life Insurance - Liberalize present program to competitive levels on a non-contributory basis. Provide opportunity for employees to purchase additional amounts on an equitable basis.

Disability - Coordinate sick leave, short and long term disability programs for hourly employees.

To further explain steps taken and benefits provided, the following detail is provided.

....RETIREMENT....

Plan Design

Sound base program which replaces a substantial portion of pre-retirement income levels.

Current Pay Level	Pre - Tax Income Needs	Pension Plan Plus Social Security
$15,000	59%	54%
30,000	54%	46%
50,000	53%	41%
75,000	56%	39%

Future executive compensation programs will address replacement deficiencies for executives.

The plan formula is tailored to provide full benefits to employees with 20 or more years of service.

- Liberal in terms of "career" definition.
- Fits with Data Card philosophy.
- Important recruiting tool.
- No changes indicated.

If it is to be supplemented, emphasis should be on the employee.

- Savings plan to be provided.
- If employee contributes, Data Card will match.

....STOCK PURCHASE....

Present plan is not tax effective.

- Employee pays for stock with after-tax dollars.
- Discount on stock price (25%) is reportable as taxable income.
- Participation in the plan is low. Currently about 20% of eligible employees participate.
- Plan should be replaced.

Two vehicles are recommended as a replacement.

- Stock Purchase Fund in Savings plan:
  - Allow stock purchase on pre-tax rather than after-tax basis.
  - Data Card prior plan subsidy (25%) to be replaced by matching contribution to savings plan.

. Take advantage of a Recent Tax Law Change by adopting a PAYSOP.

- Background:
(PAYSOP)

Formerly TRASOP.
Fully subsidized by Federal Government - annual contribution as tax credit rather than deductible expense.
Until 1983, additional 1% tax credit, if extra 1% contributed to TRASOP

- Law Change:

ERTA replaced tax credit with a credit based on payroll (hence PAYSOP).
New law provides:

Year	Tax Credit % of Payroll	Data Card Covered Payroll Equivalent*
1983	1/2%	$ 94,400
1984	1/2%	105,200
1985	3/4%	178,600
1986	3/4%	196,100
1987	3/4%	218,800

*Based on projection of covered payroll assuming 6-1/2% annual pay increases and 5% annual growth in covered active group (25 and older).

- Key PAYSOP Provisions:

Investments primarily in Data Card stock.
Immediate 100% vesting.
Carryback to the three preceding years and carry forward to next fifteen taxable years.
PAYSOP may include only first $100,000 of employee's compensation for allocation purposes.

- Impact:

"Free" benefit:

Dollar for dollar offset of tax liability
Includes administrative and set-up costs.
No impact on earnings per share.
Pass through of voting rights.

....THE SAVINGS PLAN....

. Emphasis placed on employee.

  e.g., Data Card would not contribute unless the employee was willing to contribute.

. Typically, employee contributes 1% to 6% of pay.

. Employer match (usually between 10% and 100%) based on:

  - Profit formula.
  - Productivity formula.
  - Discretionary basis.

. Most popular and rapidly growing approach in retirement planning:

  - Encourage Savings - compares favorable to other vehicles (bank accounts, credit unions, etc.). For example assume

Return on Invested Funds	10%
Data Card Matching Contribution	50%
Total Return	60%

  - Investment Management - free asset management services to employee.
  - Diversification - employee can be offered broad range of investment funds (money market, equities, fixed, guaranteed insured, etc.).
  - Tax Shelter - investment return and employee contributions sheltered.
  - Relatively Inexpensive - less than 1-1/2% of total payroll.

Data Card Expense Example

Assume:

80% Eligible
67% Participation

Average Participant Contribution	5.00%
Data Card Match @ 50 cents	2.50%

• Total Data Card Contribution
  80% x 67% x 2.50%, OR
  1.34$ Pre-Tax
  .70% After-Tax

Tax Law Changes That Make Plan Appealing

IRC Section 401(k):

- Qualified profit sharing or stock bonus plan.
- Offers employees opportunity for pre-tax contributions to retirement capital accumulation programs.
- Allows employees to contribute pre-tax dollars on a salary reduction basis to a qualified plan.
- Employee contribution is treated as employer contribution and is fully tax deductible to Data Card.

Amount of Contributions

- Lower Paid 2/3rds:

  Up to 15% — 5% Basic
  10% Additional Voluntary

- Higher Paid 1/3rd:

Average Deferral % for Lower 2/3rds	Maximum Average Deferral % for Upper 1/3rd
0 - 2%	2-1/2 x Lower
2 - 6%	Lower + 3%
Over 6%	1-12 x Lower

- Example:

  If lower paid 2/3rds contributed 5% of pay, higher paid could contribute 8% on average.

Why Pre-Tax Salary Deferral?

- Increase Take Home Pay

	Pre-Tax Savings	After-Tax Savings	
- Annual salary	20,000	20,000	
- Before tax savings (5%)	-1,000	--	
- Taxable income	19,000	20,000	
- Taxes			
Federal	2,125	2,453	
State	1,260	1,367	
Social Security	1,273	1,340	
Total	4,658	5,160	
- Salary after taxes	14,342	14,840	
- After tax savings (5%)	--	-1,000	
- Take home pay	14,342	13,840	- $502 more
. Increase Capital Accumulation			
- Savings	2,000	2,000	
- Current taxes	--	600	
- Annual investment	2,000	1,400	
- 10 year account	39,309	27,516	
- Taxes	4,500	3,100	
- Net value	34,809	24,416	- 43% more

Summary of Principal Savings Features

Eligibility:	All Data Card permanent employees over age 25.
Employee contributions:	From 1% to 5% of pay by salary reduction (pre-tax). Additional pre-tax voluntary contributions allowed (not matched by Data Card).
Data Card contributions:	50 cents for each $1.00 of employee contributions, up to the first 5% of compensation.
Vesting:	100%, full and immediate for employee contributions. 100%, 3 year class system for Data Card contributions.
Employee investment choices:	. Data Card stock . money market funds NOTE: Data Card matching contribution would automatically be invested in Data Card stock.

Distributions:

For hardship
- educational expenses
- non-reimbursed medical expenses
- housing
- financial hardship

Loan provisions:

Employees can borrow account balances for non-hardship situations
- definite repayment schedule
- "reasonable" interest rate
- interest fully tax deductible to employee, and credited to his specific account as investment return

....THE MEDICAL PLAN....

(See Attachment I)

....THE LIFE INSURANCE PLAN....

(See Attachment II)

....THE DISABILITY PLAN....

(See Attachment III)

....THE FLEXIBLE BENEFIT ACCOUNT....

"Cafeteria Plan" within meaning of IRC Section 125.

- Section 125 provides that an employee who is given a choice between taxable (cash) and non-taxable (expense reimbursements) benefits will be required to include in income only the money that is spent on taxable benefits.
- Covers all employees.
- Funded by employee salary reductions (e.g., no Data Card contributions).

Unfunded plan under which employee designates on a salary reduction basis up to:

- $200 per month for health care reimbursement.
- 20% of pay for day care reimbursement.
- Unused vacation credits for both reimbursements.

Covered Expenses:

Welfare Expense Reimbursement

. Reimbursable expenses would be:

- Employee contributions (including dependent coats) to the Contributory Life Insurance (under $50,000 total coverage), Medical, Dental and Long-Term Disability Plans.

- Coinsurance and deductibles under the Medical and Dental Plans.

- Eligible expenses not covered wholly or partially by the Medical and Dental Plans. These would be items that would qualify for a tax deduction under Section 213 of the Internal Revenue Code, and would include:

  Vision care expenses for frames and lenses.
  Hearing aids.
  Durable medical equipment and appliances.

Day Care

Could cover day care expenses incurred for the purpose of enabling the participant (or spouse) to work, or to find work.

....EXAMPLES OF FBAs TAX EFFECTIVENESS....

(See Attachment IV)

....A SUMMARY OF PROGRAM ELEMENTS....

Contingency	Old	New
Retirement	Pension	Pension
Profit Sharing	Incentive Bonus	Savings*
Capital Accumulation	Stock Purchase	Savings* PAYSOP*
Health Care	Medical/Dental/Disability	Medical/Dental/Disability Flexible Benefit Account*
Death	Life Insurance	Life Insurance

*New Program

....RECOMMENDATIONS....

- Adopt Savings Plan and Flexible Benefit Account Plan on or about April 1, 1984.
- Discontinue stock purchase plan for all employees other than those at Buena Park on March 31, 1984.
- Adopt PAYSOP for Data Card's 1984 fiscal year.
- Make welfare plan changes to be effective on or about April 1, 1984.
- Discontinue incentive plan for fiscal 1985.
- Adopt pension funding changes for plan year ending March 31, 1983.

The various recommendations were costed for effectiveness and these costs are reflected in Attachment V.

At this point you should readily see that the changes we were making addressed all of the objectives, but communication and insuring that our employees understood the changes, understood the reason for the changes, and had opportunity to raise questions about their benefits.

It was decided that we would use the following approach to our communication program.

- A theme of Value Today---Security Tomorrow was chosen. Newsletters would be sent to employee's homes addressing the new benefit program over a period of one month. Four weekly issues were produced (see attached).
- Meetings would take place at each facility conducted by personnel staff.
- An audio visual program was designed for use in our initial meetings, as well as on a continuing basis for new employee orientation.
- Newsletters and presentations were translated to Spanish for our Spanish speaking employees.
- Enrollment cards were designed.

Throughout this program design it was also necessary to:

- Select Trustees for the investment plan.
- Select Money Managers.
- Establish administrative procedures.
- Modify payroll systems to address tax changes.

All programs were implemented as of April 1, 1984 except the medical reimbursement plan and the dependent care plan.

As you can see, these programs were designed to work as a unit. Each was designed to enhance our employee's benefit program. There are several changes that when viewed independently are somewhat negative; higher deductables, elimination of employee bonus program. Our strategy from the beginning was to present a "package" to our employees.

With recent rulings, decisions and changes in legislation, we have found it necessary to stop the implementation of some of the most beneficial benefits to make this package what it was designed to be.

We feel we can't proceed in some areas until decisions are reached by those people regulating these programs in the government.

We would urge our legislators to carefully review any and all legislation affecting benefit programs and plans. With employees at a loss as to what they can do, and without knowing what to expect in the future, the easiest stance to take, and sometimes the only economically sound stance to take for smaller employees, is to do nothing. Without the ability to offset rising costs in some method the individual employee is the one who is hurt.

Thank you for the opportunity to share our programs with you and I hope the above will be of some assistance to you.

Clifford A. Steele

Clifford A. Steele

Attachments

....THE MEDICAL PLAN....

Items	Current Plan	Recommended Plan
Structure	. Comprehensive Major Medical	. Comprehensive Major Medical
Deductible	. $75 per individual $150 per family	. $150 per individual 2 per family maximum
	. Waived for hospitalization and first $500 of non-occupational accident	. No waivers
Coinsurance	. 80%/20%	. 80%/20%
Full Payment Feature	. $1,000 per individual	. $1,000 per individual $3,000 per family
Lifetime Maximum	. $500,000	. $1,000,000
Other: - Late Enrollment	. 90 day waiting period	. Proof of insurability required
- Pre-existing Condition	. No coverage limitation	. Coverage limit of $2,000 through completed calendar year
- Second Opinion	. No requirement or coverage	. Second opinion covered at 100% (optional)
- Coverage for Semi-Private Room	. Average semi-private room rate plus $8.00	. Average semi-private room rate
Employee Contributions	. Individual: 10% Family: 30%	. Individual: 10% Family: 30%

Attachment I

....THE LIFE INSURANCE PLAN....

Items	Current Plan	Recommended Plan
Structure	. Base plus contributory supplemental	. Base plus contributory supplemental
Coverages	. Base: Scheduled from 1 times annual pay to 2 times annual pay . Supplemental: 1 times annual pay . Maximum: $150,000	. Base: 2 times annual pay . Supplemental: 2 additional 1 times annual pay . Maximum: None
Employee Contributions	. 100% of Supplemental . Non-age-related	. 100% of Supplemental . Age-related
Other	. Non-contributory - AD&D - Travel Accident	. Non-contributory - AD&D - Travel Accident
Dependent life		
- Coverage	. Spouse: $2,000 Child: $100 or $1,000	. Spouse: $2,000 Child: $1,000
- Employee Contributions	. Employee contribution included under medical contribution	. 100% contributory separately

Attachment II

....THE DISABILITY PLAN....

Items	Current Plan	Alternative
Sick Leave		
- Salaried	None	None
- Hourly		
. Eligibility Period	. 6 months	. 6 months
. Accrual	. 2-1/2 days/6 months service; 20 days max	. 2-1/2 days/6 month service; no max.
. Benefit	. 100% pay continuation	. 100% pay continuation
Short-Term Disability		
- Salaried		
. Eligibility Period	. None	. None
. Accrual	. 3 months immediate	. 3 months immediate
. Benefit	. 100% pay continuation	. 100% pay continuation
- Hourly		
. Eligibility Period	. 6 months	. 3 months
. Accrual	. 8 weeks/yr. immediately	. 12 weeks/immediate disability
. Benefit	. 50% pay; max. $200/week	. 50% pay; no max.
. Waiting Period	. None if accident or hospitalized, otherwise 5 days; Sick Leave benefits used first	. None if accident or hospitalized otherwise 5 days; Sick Leave coordinate with S.T.D. benefits to 100% max.
Long-Term Disability		
- Salaried		
. Eligibility Period	. 1 month	. None
. Waiting Period	. 3 months	. 3 months
. Coverage	. 60% (max. of $7,500 per month)	. 60% (max. of $7,500 per month)
. Employee Contribution	. 50% of premium	. 50% of premium
- Hourly		
. Eligibility Period	. 1 month	. 3 months
. Waiting Period	. 3 months	. 3 months
. Coverage	. 60% (max. $3,000 per month)	. 60%
. Employee Contribution	. 50% of premium	. 50% of premium

Attachment III

....EXAMPLES OF FBAs TAX EFFECTIVENESS....

Status	Employee 1 Single		Employee 2 Married (Joint Ret)		Employee 3 Married (Joint Ret)		Employee 4 Married (Joint Ret)	
Annual Gross Income	$12,000	$12,000	$25,000	$25,000	$50,000	$50,000	$100,000	$100,000
Flexible Benefit Account								
Salary Reduction		600		2,480		2,961		4,000
Net Taxable Income		$11,400		$22,520		$47,039		$ 96,000
Federal Tax	1,429	1,311	3,550	3,014	10,716	9,734	30,649	28,977
Minnesota Tax	636	586	1,859	1,614	4,245	3,963	8,575	8,240
Soc. Sec. Tax	804	764	1,675	1,509	2,392	2,392	2,392	2,392
After-Tax Income	9,131	8,739	17,916	16,383	32,647	30,950	58,384	56,291
Tax Savings		$ 208		$ 947		$ 1,264		$ 2,007
Tax Savings as % of FBA		35%		38%		43%		50%

Attachment IV

....ANNUALIZED COST PROFILE FOR FISCAL 1984....

(February 14, 1983)

Plan	Old	New	Change
. Pension	894,000	480,600	-413,400
. Stock Purchase 1/	150,000	4,900 3/	-145,100
. Savings 2/	--	292,000	+292,000
. PAYSOP	--	--	--
. Medical	710,000	600,000	-110,000
. Life	80,000	110,000	+30,000
. Disability 4/	265,000	285,000	+20,000
. Dental	125,000	125,000	--
. Incentive Plan 5/	148,600	--	-148,600
. Administration/Set-up	--	50,000	+50,000
. Internal Administration (Staffing)	--	22,000	+22,000
. Social Security Savings	--	-35,000	-35,000
	2,372,600	1,934,500	-438,100

1/ Estimated based on Company projection for fiscal 1984 (full year).
2/ 50 cent match, based on covered payroll of $17,434,60067% participation and 5% average employee salary reduction, (excluding Plastics).
3/ Plastics.
4/ Including short term program.
5/ Three year average for fiscal years 81, 82 and 83: Fiscal 81 345,800
Fiscal 82 0
Fiscal 83 700,000 (Est.)

Attachment V

DAVID N. PRICE INC. • 790 WEST SHAW, SUITE 260 • FRESNO, CA 93704 • PH. (209) 224-7656

August 8, 1984

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Sub Committee on Taxation and Debt Management.

By David N. Price, Inc.

The hearings on Employee Fringe Benefits conducted on the above dates, the following information is submitted for your consideration.

Our firm is a consultant to the small employer based on Qualified Pension and/or Profit Sharing Retirement Plans. Therefore, at our business we get to know a large number of the employees who work for these small employers. We feel we have a working knowledge of the importance of fringe benefits and what they provide for the common law employees.

First, if the deposits into a Pension and/or Profit Sharing Plan were not deductible, the employer could not afford to maintian a Pension and/or Profit Sharing Plan for any of its employees. By the factor that these plans are deductible it provides an extra incentive for the employee to maintain his employment with the firm and this provides one of the mechanics

to retain higher qualified employees. Moreover, it provides the privilege and opportunity to retire individuals with dignity after they have maintained a career as an employee for a firm.

One of the basic functions of a Pension and/or Profit Sharing Plan is to set up for an employee, the right to deposit into a sinking fund called a Pension Plan, for his ultimate economic demise (retirement). In the simplist form a Pension and/or Profit Sharing Plan is the depreciation of an individual who works as an employee. Concerning the restrictions that are placed upon the fringe benefits and their employees, I am concerned that Congress has indeed gone too far. My reasoning focuses upon the Congressional design of the tax code and it's exclusion of restrictions for public employees while maintaining those restrictions for the private sector. The consequent is a double standard. An article on point appeared in the Washington Post July 16, 1984. Retired Federal Government employees are receiving, in pensions, up to fifty percent (50%) more than earned while employed. This same activity appears for Retired United States Congress. The employees of the Federal Government, Congressmen, state employees, and city employees, etc. have cost of living adjustments far greater than those provided in any private sector Pension Plan. It is strongly felt that removal of any fringe benefits currently enjoyed by the private sector, should be balanced by like removal of fringe benefits from all public

employees. This inconsistency was exemplified in a recently published article stating that the public employees of Fresno City will require a 54% contribution of their base pay to fund the City Police Department. This procedure, however, is not allowed for funding for private employees.

Without the tax incentives, employers would not provide quality health insurance for their employees as they do today. Health insurance, provides the employee with the opportunity to return to the work force quicker, therefore, earning more taxable income.

In regards to the possibility of the Federal Government providing benefits directly at a lower cost, we need only look at the present welfare funding of medical and medicare expenses. There is no existing evidence indicating these plans are providing lower cost medical care than private sources. In addition, the Veteran's Administration Hospital System has been noted for having not only greater costs, but usually twice the cost of patient maintenance compared to a private facility. Therefore, the cost will automatically rise due to Government control and its encumbering political process. What we need is rather the efficient administration of a prudent plan basis. I seriously doubt that the Government is capable of performing any function more economically than the private sector. I would challenge anyone to provide me with one example.

The current tax laws provide for fringe benefits that in the Pension and Profit Sharing avenue are actual tax postponements. They are not tax forgiveness or total tax avoidance.

Facts in our files, indicate beyond a doubt that high caliber employees will certainly select the firm offering a full range of employee benefits over one which does not even when the latter pays a higher salary.

The Individual Retirement Account is the prime example of how the public really feels regarding their own personal retirement plan. The reports reviewed indicate there are a larger number of people selecting to purchase IRA's than Congress ever estimated. Why? Basically the average public feels that this type of plan offers the only true control they might exercise over their own retirement. They feel the cost of Social Security will become prohibitive, and cease to be a valued benefit due to their lack of control. In my opinion, the only purpose for which reduction in fringe benefits is being considered is immediate increase in current Federal Government taxation.

We feel strongly that you should seriously look to: A. Reducing the expenditures by providing less interference with the private sector, whereby, these great United States citizens, the working force, may create the economic climate to provide economic gain for their employers and employees alike. B. If additional revenues are desired the public employees should have no greater

benefits than the private employees. C. It is strongly urged that a private sector employed in this area are much better qualified in this regard than a staff employee and/or a persons from the educational institutions inasmuch as the latter does not have the first hand knowledge needed to arrive at conclusions which are fair, prudent and representative. It is strikingly apparent that the magnitude of this subject requires a special, selective and thorough consideration.

We feel the private enterprise has built a very effective and efficient system to solve the needs of the employees. In addition, the Private Pension sector has created a large capitol base which has helped and will continue to help the needed expansion of the business communities which make up a large entity which our Government cannot function without.

STATEMENT OF THE
DELTA DENTAL PLANS ASSOCIATION TO THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
COMMITTEE ON FINANCE
UNITED STATES SENATE
JULY 30, 1984

Mr. Chairman, I am Dr. Erik D. Olsen, President of California Dental Service, the Delta Dental Plan of California, and Chairman of the Government Programs Committee of Delta Dental Plans Association. Delta Dental Plans Association is the national coordinating agency for the country's not-for-profit dental service organizations.

We appreciate the opportunity to testify and want to say at the outset that we believe that the existing tax incentives for health care benefits are responsible for a system that is fundamentally fair and that has ensured that the average employee has adequate health care coverage. Moreover, we believe that any change in the tax treatment of these benefits, for example, the proposal to limit the amount of employer-paid health insurance premium that would be considered tax-exempt could cause a serious diminution of the health care benefits of a large number of employees and their families.

Delta Dental Plans are separate, autonomous prepayment organizations under the jurisdiction or regulation of state insurance commissioners or attorneys general. As a result of Delta's support by the dental profession, and unique contractual relation-

39-707 O - 85 - 38

ships with participating dental practitioners, Delta Plans provide true "service" benefits, in contrast to indemnity payments, for the cost of treatment to covered subscribers.

An estimated 70,000 dentists, over two-thirds of the approximately 100,000 active practitioners in the United States, are presently contracting participants in Delta programs.

Delta Dental Plans design their programs to provide maximum dental care benefits to subscribers at reasonable cost to the program purchaser and the covered subscriber. Since all Delta Plans are not-for-profit, no portion of the benefit dollar is held for dividends to shareholders. All funds received by Delta Plans, therefore, are used to pay for services rendered to covered subscribers and eligible dependents and the administration of the program. Dental consultants are designated by the Plans to review the necessity, appropriateness and adequacy of care provided by participating dentists.

Delta Plan administrative techniques, which have evolved from a first-hand awareness of the "elective" nature of most dental treatment, embody a cost containment concept most visible in such program design elements as deductibles, copayments and maximums, and in the determination of covered benefits by Plan dental directors and consultants. Basing their claims processing policies on professionally accepted standards of dental care, Dental Plan dental directors and consultants are able to

to effectively control areas of program over-utilization and other potential abuses.

Dental disease is the most extensive health problem in the United States today, and is almost pandemic with respect to its occurrence in the population. Dental diseases are not self-healing and cannot be cured by professional advice or medication alone. Without treatment, dental diseases continue their damage and proceed to become more severe. Some oral health problems have become so widespread that many people have accepted tooth loss and other complications of dental disease as inevitable.

A major difference between the public's view of medical and dental payments is that all too often people fail to relate oral disease to their general systemic health and well-being. Frequently there is a tendency to accept dental disease complacently because of the undramatic nature of most dental problems in their early stages. This casual acceptance of dental disease contributes greatly to the postponement of treatment.

Although the cumulative dental health problems of this nation are huge, remarkable progress can be made, and has been made, if the existing knowledge and science of dental treatment are put to use and made available to our citizens. The most economic and efficient way to improve the nation's oral health is to prevent dental disease. From the economic standpoint, regular and routine preventive care and maintenance is the

most cost-effective and efficient way to overcome both the human suffering and the hours of productive work time lost through the disabilities caused by the poor oral health of countless millions of Americans.

In recent years it has become widely accepted by health care professionals and economists that prevention might be used, not only to improve the health of Americans, but also to help contain the cost of their health care.

The basic idea is a simple one: relatively low cost investments in disease prevention and health education will prevent or postpone the onset of illness and disability requiring more expensive treatment. Thus, prevention succeeds as a cost containment mechanism if the dollars saved in future years exceed the current cost of the prevention effort, whether the savings are due to expenditures completely avoided or only delayed.

The experience of recent years in dental care through programs of preventive treatment and the mechanism of dental prepayment and insurance has been perhaps the most dramatic example of the principle of prevention in action.

Once thought "uninsurable," dental care has now joined hospital and medical/surgical coverage as a standard benefit in the employee benefit package in virtually all segments of the American work force. Dental prepayment has enabled and/or motivated a far greater number of people to obtain dental care

than would otherwise have been possible. It is a demonstrated fact that a larger proportion of covered patients regularly seek dental care than do those without dental benefit programs.

Less than 20 years ago, nearly 65 percent of the population did not visit the dentist during a given year. Today, more than half of the population has one or more dental visits annually. Two factors have been critical to this improved picture: the emphasis on preventive measures, health care education and early diagnosis and treatment in the dental office and the growth of prepaid dental benefit programs to the point where 90 million Americans have dental care coverage today.

This expanded coverage has been made possible by the current tax policy toward fringe benefits. The existing tax incentives for employer provided health care benefits must be continued, in our judgment, if this pattern of improved health is to continue.

When the Finance Committee was initially considering whether to place a limit on the amount of tax-exempt, employer-provided health care benefits last year, Delta commissioned a survey on the public's attitudes toward health care coverage. The survey was conducted by the nationally recognized Roper Organization, Inc. Eleven questions were asked of a nationwide cross-section of 4000 men and women 18 years and older in face-to-face interviews in respondent's homes. This resulted in interviews

with 2242 employed people. A copy of the complete survey was sent to every member of the Finance Committee and a summary is attached to our statement, but I would like to summarize some of the key findings here today:

- o The survey confirmed earlier studies that those who have dental coverage go to a dentist more frequently than those who do not have coverage -- nearly 4 in 10 who have coverage go to a dentist twice a year or more, compared with just 1 in 4 of those who do not have coverage.

- o When asked if the proposed limit on tax-exempt health care benefits would make a difference in reducing health care costs or reducing the federal deficit, a large plurality said it would not make a difference. This opinion was amazingly similar across the socio-economic spectrum as well as among men and women and conservatives and liberals.

- o Almost 8 out of 10 people interviewed had some degree of concern about the way that a limit on tax-exempt status of health benefits would affect their ability to continue to protect themselves and their families from illness or injury. Respondent's were asked, in the event of a "cap" on the tax-exempt status of their

health benefits, if they would be willing to keep full coverage and pay more taxes or pay additional cost out of pocket. Using Roper's standard measurement to determine reliability of response, 76% of the respondents were likely to drop some parts of their health coverage.

This last point is the one we believe this committee should be concerned with, Mr. Chairman. With minimal encouragement the working men and women of this country can receive comprehensive health care benefits and we are a better nation because of it. Health care benefits are truely the universal fringe benefit.

I would like to emphasize that growth in dental benefit programs has been achieved without the extreme inflation in dental treatment fees that has afflicted other health care disciplines. While the number of Americans covered under dental benefits increased dramatically over the past decade from 12 million people, or 6 percent of the population, to 87 million, or over 33 percent at the end of 1982, the rate of increase in the cost of dental services actually was lower during this same period than the rate of increase for all services in 1970-82.

The typical dental benefit program differs from the hospital/medical program model in that the dental program is structured to provide greater benefits for diagnostic and preventive services with lesser benefits for restorative and replacement

services. This approach creates financial incentives for program subscribers to seek preventive dental services on a regular basis and to establish sound home care habits (as shown by the Roper survey). The level of coverage for restorative services assures a sharing by the subscriber of the cost of those services, thereby encouraging the active participation and concern of the consumer.

Because susceptibility to dental disease is nearly universal, the need for preventive services to control such disease is highly predictable. Dental benefit programs, therefore, are not so much "insurance" as they are a means of prepaying the cost of prevention and treatment. To a large extent, the seeking of dental care at any given time is a discretionary act by an individual. For a dental care program to be financially feasible and stable in its operation, however, it is necessary that enrollment of the subscriber population be accomplished through a single decision by a group purchaser rather than through decisions by each member of the employee group.

As a practical matter, most prepayment organizations and insurance carriers will not enroll groups of 25 or less employees. Dental benefit programs are sold only on a group basis, not to individuals.

The key to a dental program's stability is that individuals in the group represent the entire spectrum of dental care needs including both those who require an extensive amount of dental

treatment involving many dental visits and a relatively high overall cost as well as those individuals who may rarely require dental care services. A dental benefit program involves establishing a per-person cost for the entire group, regardless of the level of need, in order to cover the cost of the services required by the group. To permit individuals within a group to withdraw on the basis of their own limited need or desire -- as the survey indicates might well happen -- immediately has the effect of substantially increasing the cost of the program for the individuals electing to retain dental coverage. This effect occurs when individuals, knowing they may not immediately require dental care, or who have recently had extensive dental treatment, or who wish to postpone necessary health care, withdraw from the population base. This creates an "adverse selection" situation, which in turn forces the costs of dental benefit programs to escalate substantially.

As we have intuitively believed, and as the Roper survey now clearly shows, changes in tax incentives affecting health care benefits will have a materially adverse affect on dental care coverage and, ultimately, the health of working men and women and their families.

In closing, Mr. Chairman, I would like to summarize by saying that dental benefits are on the way to becoming universal, significantly improving the oral health of America and encouraged by the present tax incentives. As the Roper survey

demonstrates, almost half of working Americans do not believe that changing their incentives would have a favorable impact on either health care costs or the federal budget deficit. Further, that an alarmingly high 76% of working Americans would drop some health benefits. Therefore, I would urge this committee, in its future deliberations, not to change those incentives that are fundamentally fair and fundamentally sound in their effect.

Thank you.

Delta Dental Plans Association

211 East Chicago Avenue
Chicago, Illinois 60611
Phone (312) 337-4707

EXECUTIVE SUMMARY

ROPER POLL SHOWS WIDESPREAD OPPOSITION TO

TAX ON HEALTH CARE BENEFITS

In a nationwide opinion survey, nearly half those interviewed said that a tax on health care benefits would not be helpful in controlling health care costs (see pages 31-33). In the same survey, nearly 76% of those questioned said that they were not "very certain" that they could keep their present health care benefits if such a tax were imposed (see pages 23-25).

The poll was taken by the Roper Organization, Inc. in the late summer of 1983 with the full analysis of results being released now by Delta Dental Plans Association, who commissioned the survey. Delta Dental Plans Association is a national network of not-for-profit State Plans offering group prepaid dental benefit programs. In 1983, Delta Plans covered 15 million people and paid out an estimated $1 billion in benefits to covered subscribers.

The possibility of a tax being imposed on health care benefits was raised frequently during the 1983 Congressional session. Hearings were held on the proposal (S-640) but no further action was taken. It is anticipated that the measure will receive further attention in 1984.

A broad range of interests including labor, management, health and insurance groups -- opposed the measure. Organized dentistry offered particularly active opposition on the grounds that the copayments and deductibles that are typical of dental benefit programs already limit costs significantly in comparison with other health insurance benefits and that these co-payments and deductibles offer

a model Congress might consider following rather than penalizing.

WIDESPREAD OPPOSITION

Among those polled who felt that a tax on health would not be purposeful, there was a striking similarity on this view from all segments of society, as the excerpt below from the tables on pages 31 and 32 demonstrates:

PERCENTAGE SAYING TAX WOULDN'T HELP							
coll grad	non-hs grad	exec prof	blue collar	men	women	conservative	liberal
48	45	48	48	48	46	46	47

When subtracting those not answering or giving an equivocal answer to the question of a health benefits tax being useful, the poll shows a remarkable consensus across the entire spectrum of society believing that such a tax is ill advised and purposeless.

The national opinion survey commissioned by Delta showed, as well, that a large majority of people weren't sure they could retain all of their present health care benefits if such a tax was imposed. As the comments by the Roper Organization indicate, only those who indicated they were "very certain" about their answer can be fully expected "to hold to these choices" (page 12). On that basis nearly 8 out of 10 people interviewed had some degree of concern about the way in which a tax would harm their ability to continue to protect themselves and their families from illness or injury. Once again, this widely held concern was repeated within nearly all the subsets of the population, as the following excerpt from the tables on pages 23 and 24 shows:

PERCENTAGE LESS THAN "VERY CERTAIN" ABOUT EFFECTS OF TAX							
coll grad	non-hs grad	exec prof	blue collar	men	women	conservative	liberal
74	80	68	79	73	79	75	75

In addition to these questions on the proposed tax on health benefits, the

Roper poll, confirmed for the first time in hard figures a measure of the way in which dental insurance has become a common, highly valued health benefit and, as well, the poll makes it possible to draw profiles, again for the first time, of a typical beneficiary of it as well as one of those who do not yet have this benefit.

NINETY MILLION COVERED

The survey shows that some 42% of the nation now have dental benefits, an estimated 90 million people. Far more people in the western sector of the nation, 51%, have benefits today while the southern states lag behind with 32%. Nearly half of those employed full-time, 49%, have dental coverage while 70% of union members benefit from it. Among the array of health care benefits available through employment, only hospitalization, physician costs and major medical plans cover a larger percentage of the population than does dental prepayment.

Among those groups within the population who are least benefitted as yet by dental prepayment are those with family incomes of less than $10,000, 13%; those who live in the least urbanized parts of the country, 27%, and, as mentioned, those who live in the South, 32%.

Though dental coverage was practically unknown on a national scale as recently as 15 years ago, the Roper poll indicates that it has quickly become a highly valued benefit. When those surveyed were asked what parts of their total health care coverage they might consider terminating, only 16% of those employed full-time and 15% of those now having coverage mentioned dental prepayment as one of the first two or three things they would surrender (page 28).

A further indication of the value of this relatively new benefit is shown by the answers to two questions asked only of those who do not now have dental prepayment. When asked why they didn't have it, 43% said it was because the

employer didn't offer it while only 16% had other reasons (page 34). When asked whether they would take it if offered by the employer, nearly three out of four said they would and nearly half said they would even if the employer didn't pay the full premium.

DENTAL HEALTH HABITS

The Roper poll, finally, asked those surveyed about their dental health habits. Some 74% of those employed full-time and having dental coverage said they saw the dentist about once a year or more often while 61% of those employed full time but without coverage said the same. The higher percentage for those with coverage is believed by dental experts to be good news from a cost standpoint since it means such people are more likely to have a good state of dental health and are having problems corrected early, when it is less expensive to do so.

In 1982, according to government figures, the national dental care bill was some $19 billion out of a total health care bill of $308 billion. Unlike medical and hospital spending, dental care expenditures are almost entirely from the private sector, with only some 4% of the total being public funds as opposed to 44% for the hospital-medical sector. This makes private funding of dental prepayment of particular importance to the workforce since there is essentially no public support for dental care cost. The Delta Dental System is the oldest carrier of dental benefit programs in the nation and, in 1982, its benefits payments accounted for some 20% of the total of such payments made.

DEMARK, KOLBE & BRODEK, S.C.
ATTORNEYS AT LAW
6216 WASHINGTON AVENUE
RACINE, WISCONSIN 53406
AREA CODE 414
RACINE 886-9720
KENOSHA 652-7103

WILLIAM F. KOLBE
ANTHONY S. DEMARK
RICHARD C. BRODEK
ROBERT L. SWANSON
GREGORY A. RUIDL
JOHN E. GRAHOVAC

MAIL ADDRESS
P.O. BOX 0
RACINE, WISCONSIN 53403

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management

By Richard C. Brodek of DeMark, Kolbe & Brodek, S.C.

This report is being submitted on behalf of DeMark, Kolbe & Brodek, S.C., a Wisconsin law service corporation, and of our clients that maintain qualified pension and/or profit sharing retirement plans for their employees.

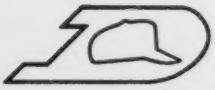
It is our understanding that testimony has been presented at the hearings indicating that current tax incentives encouraging employers to provide fringe benefits to their employees are not worth the loss in revenue and do not result in broad and fair coverage of the rank and file employees. Such conclusion appears to be erroneous in view of the provisions contained in the Employees Retirement Income Security Act of 1974, the Tax Equity and Fiscal Responsibility Act of 1982 and the Deficit Reduction Act of 1984. Each of those acts expanded coverage for rank and file employees to such an extent that under existing law the vast majority of employees of small and large employers are now covered under their employer's plans.

It is a rare month that elapses without the publication of some commentary concerning the integrity of the Social Security system. It would seem, therefore, that Congress should do its utmost to preserve and strengthen the private retirement plan system rather

than imposing more restrictions and penalties.

Our law firm, although a small law firm consisting of eleven employees including lawyers, maintains a cash or deferred arrangement, group health and surgical insurance, group life insurance, dependent care plan and a medical reimbursement plan. All employees are covered under the health and surgical plan, the medical reimbursement plan, the dependent care plan and the group term insurance. Nine of the eleven employees are covered under the cash or deferred profit sharing plan and all will be covered as a result of TEFRA. Many of our employees tell us that it is unusual for such a small organization to provide so many fringe benefits and that their friends working for other small employers who do not have such fringe benefits available to them hope that their employers would eventually adopt fringe benefit programs. Congress should, therefore, encourage the establishment of such programs rather than penalizing them.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenue.



DERBY CAP MANUFACTURING CO., INC.

700 WEST MAIN STREET, LOUISVILLE, KENTUCKY 40202 • USA • PHONE (502) 587-8495

Submitted as part of the Record of the Hearing On Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By DERBY CAP MANUFACTURING CO., INC.

We have been hearing quite a bit from our legal advisors concerning the hearing which was conducted in late July. We are very much in disagreement concerning the Social and Economic purpose for employee pension and profit sharing programs. We feel that they are extremely valuable items to all Americans and the use of these plans should be encouraged for all employees of every company in the U.S.A. instead of discouraging the use of this plan for increased retirement security of our people. In today's modern annual increasing cost of living and more advanced technology, it is becoming harder and harder for the middle class to save for their future retirement. Social Security alone will not enable a person to retire and a supplemental source is needed.

The Employer Pension or Profit Sharing Program Plan allows for each employee to receive additional benefits at retirement age and is not taxable to him during his years of productive earnings since the funds will not be available until his retirement. This gives him full use of all his supplemental earnings to go towards retirement instead of the tax deflated dollar he receives as gross wages.

The lower income people or "Middle Class" badly need the Security of Social Security and Company Pension or Profit Sharing Plans to help safeguard themselves against poverty in their old age.

We feel that an Independent IRA Account is also necessary for each employee, if he is able to afford it on his regular income.

We do feel that the Federal Budget must be balanced to secure the safety and enrichment of all Americans. We do not believe that the corporate deduction for benefit plans for retirement and profit sharing programs can be eliminated if the plans are to be continued.

Company retirement plans are important and necessary programs for all Americans and we strongly encourage the continuation of these benefits tax free until retirement to the employees and tax deductable annually to the business community as contributions are made.

Diamond Crystal Salt Company
ST. CLAIR, MICHIGAN 48079

CARL W. KUCSERA
CORPORATE MANAGER
PERSONNEL & INDUSTRIAL RELATIONS

August 7, 1984

Roderick A. DcArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Re: Finance Subcommittee on Taxation & Debt Management - Hearing on Fringe Benefits
Dates of Hearings: 7/26, 7/27, and 7/30, 1984

Gentlemen:

The employers in this country have been responsible for a tremendous increase in the personal security enjoyed by American workers and their dependents. Voluntarily created, employer sponsored, life, health and disability insurance plans, as well as pension plans, cover a vast majority of employees. These employee benefit plans are the most efficient and cost effective way of delivering economic security to employees, and cover employees at all wage and salary levels, not just the highly compensated top executives.

Preferential tax treatment for these plans has encouraged their growth and is a wise investment in the future economic security of the nation. If tax policy ceased to encourage employee benefits, additional strain would inevitably be placed on public institutions and programs. Congressional tax policy should continue to foster employee benefits, not regard them simply as an uncapped source of revenue.

Sincerely,

Carl W. Kucsera

CWK:dy

The Honorable Robert Packwood
Committee on Finance
Room SD-219 Dirksen Senate Office Building
Washington, D. C. 20510

Attention: Mr. Roderick A. DeArment

Dear Senator:

In recognition of the importance of your recent hearings on fringe benefits for employees and companies, this is to inform you that Digital Equipment Corporation sent telegrams to several members on the Finance Committee urging their attendence. A copy of the telegram sent to Senator Mitchell is enclosed which is similar to the ones sent to Senators Dole, Danforth, Chafee, Heinz, Durenberger, Long, Bentsen, Moynihan, Bradley, and Armstrong. Telegrams were also sent to Senators Kennedy and Tsongas urging them to sent staff to the hearings.

Digital Equipment is very interested in these hearings and would appreciate it if you arranged for copies of available printed materials to be sent to our corporate benefit staff. Please send these to:

Mr. Dan Fritz
Digital Equipment Corporation
150 Coulter Drive CF02-3 C/17
Concord, MA 01742

Thank you.

Respectfully yours,

DIGITAL EQUIPMENT CORPORATION

John L. Sims/mp

John Sims
Vice President, Corporate Personnel

JS:A
Attachment

00 BURT DECGRAM ACCEPTED S 005427 O 429 20-JUL-84 17:17:44

d i g i t a l

Interoffice Memo

TO: THE HONORABLE GEORGE J. MITCHELL

DATE: FRI 20 JUL 1984 4:44 PM EDT
FROM: JOHN SIMS
DEPT: CORP PERSONNEL
EXT: 251-1335
LOC/MAIL STOP: CFO2-3/C21

MESSAGE ID: 5243152573

SUBJECT: PACKWOOD HEARINGS 7/26/84

To: The Honorable George J. Mitchell
Senate Russell Building, Room 364
Washington, D.C. 20510

150 Coulter Drive CF02-3 C/21
Concord, MA 01742
20 July 1984

Dear Senator:

Digital Equipment Corporation, the world's second largest computer manufacturer, like most employers, provides medical, disability, retirement, and other benefits to our 54,000 U.S. employees and their dependents. These benefits intimately affect their lives by protecting their health, assuring a decent standard of living during retirement, and cushioning them and their families against the tragedies of unexpected illness, disability, or death.

Besides being important to employees, company benefits enable Digital to attract and retain the employees needed to maintain its worldwide leadership position in the high technology industry. Benefit costs are one of the company's largest cost expenditures. Constant efforts are made to keep benefits competitive while also containing costs.

Any action that you and other members of Congress may take that would affect the availability and cost of these benefits is of concern to Digital and our employees. On July 26, 27, and 30th, 1984 the Finance Committee's Subcommittee on Taxation and Debt Management will be holding hearings on the subject of welfare and retirement benefits for employees and their tax-exempt status under the Internal Revenue Code.

Digital believes that it is most important that every member of

Congress, but particularly those like yourself with a special responsibility for tax matters, understand how changes in the taxation of employee benefits will affect the physical well being and economic security of millions of American employees. We therefore ask that you make every effort to attend these hearings in order to hear first hand the view of employers and the employees on this critical subject.

Thank you for your consideration.

Respectfully yours,

DIGITAL EQUIPMENT CORPORATION

John Sims
Vice President, Corporate Personnel

JS:a

AVON PARK NORTH
BOX 775
AVON, CT 06001
(203) 674-9445

Dill, Joyce & Thresher
INCORPORATED

July 31, 1984

Roderick A. DeArment
Chief Counsel Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Enclosed is a written statement that I would appreciate having appear as part of record for the hearing on Employee Benefit Plans by the Senate Finance Committee. Should you desire further information please contact me.

Very truly yours,

Colby Thresher

B. Colby Thresher, CLU
Executive Vice President

BCT/dmb

Senate Finance Committee

Washington, D. C. 20510

RE: Taxation of Employee Pension and Welfare Benefits

As a small employer (10 full-time employees) I strongly urge the Committee to allow the current tax favored status of Employee Pension and Welfare plans to continue.

In the post World War II years the growth of Medical Expense Benefit programs as well as Disability income and modest amounts of non-taxable Life insurance has been phenomenal. In great part this is because contributions to the plan for an employer were tax deductible and the benefit of these plans was not taxable to the employee.

For many years I listened to the cry of those who wanted "National Health Insurance", which would have given rise to a huge bureaucratic machine that would have swallowed dollars endlessly. Instead the response of the private insurance industry and employers was to create plans with adequate limits to cover American employees and their dependents. With the allied programs of Medicaid on a state basis and Medicare on a federal basis vertually all groups have sufficient coverage for catastrophic medical expenses.

To begin taxation of these benefits would be disastrous. I feel many employers would begin to unnecessarily weaken or even discard certain programs.

We can not create a perfect tax system and tax every single item in terms of a dollar compensation. Programs such as the exsisting Life, Disability, Medical and Dental benefits that have been in place through years of sucessful development would be greatly damaged by this action. Therefore, I urge the members of the Committee to continue to allow these programs to maintain their tax favored status.

Very truly yours,

B. Colby Thresher, CLU
Executive Vice President

BCT/dmb

DILLON COMPANIES, INC.
Box 1266/Hutchinson, Kansas 67504-1266/(316)663-6801

HAROLD D. RYAN
Vice President-
Human Resources

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

July 26, 27 & 30, 1984 Hearings on Fringe Benefits

Within the last few days, I have seen several articles regarding the above captioned hearings. I am writing in the interest of expressing our company's concern of the possible consequences to our employees if the tax laws are changed to eliminate tax incentives for fringe benefits.

It appears, based on the information we have seen, the Senate Committee on Finance Subcommittee on Taxation and Debt Management has identified what they consider a multi-billion dollar tax revenue loss due to employers sponsoring these plans and intend to tap these dollars. For the short range this could have a positive effect on the flow of revenue into the Treasury, however for the long pull it could have an adverse effect, as we believe the private sector can provide these necessary benefits far more efficiently than through a government program.

Our Company has 26,000 employees located in thirteen states. Most of these employees participate in some type of fringe benefits,

either through a company sponsored plan or union sponsored plan which the company makes contributions to on their behalf. These various plans represent a good cross section of employees -- rank and file as well as highly paid. Participation also represents a fair ratio of male and female employees. These employees and their families have enjoyed these programs for years and consider them a necessity and essential to their economic security. As a company we also endorse this philosophy, and are pleased that we are in a position to provide these programs. However, if the tax incentives are taken away by suggested major changes, it will be necessary to re-evaluate the costs of these programs, which ultimately could result in a reduction or suspension of some benefits. I feel confident other companies would be placed in the same position.

In conclusion, we ask that your committee re-examine the consideration being given to eliminate the tax advantages as they relate to fringe benefit plans.

Sincerely,

Harold D. Ryan

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: Hearing on Fringe Benefits
July 26, 1984

If this country cannot afford the cost of providing Medicare benefits for all citizens age 65 (sixty-five) and over, then how can this country possibly consider taking on the cost of medical benefits for all its citizens under age 65 (sixty-five) as well?

Employer sponsored benefits, administered by private industry, play a big role in not adding to our national debt and tax burden.

Should benefits be provided by the government private industry benefit administrators would be shut down, displacing millions of workers. Can the government also handle the burden of their unemployment benefits and retraining?

Sincerely,

Gwyned Trefethen

Gwyned Trefethen
V.P. of Administration
Member of the SPBA

LAW OFFICES OF

DOMINICK, FLETCHER, YEILDING, WOOD & LLOYD, P. A.

PROFESSIONAL ASSOCIATION

2121 HIGHLAND AVENUE-P. O. BOX 1387

BIRMINGHAM, ALABAMA 35201

TELEPHONE (205) 939-0033

RICHARD DOMINICK (1926-1976)

FRANK DOMINICK
WALTER FLETCHER
NEWMAN MANLY YEILDING, JR.
J. FRED WOOD, JR.
LEE B. LLOYD
EZRA B. PERRY, JR.
CARLETON P. KETCHAM, JR.
SUSAN DOMINICK DOUGHTON
C. FRED DANIELS
HAROLD L. FERGUSON
J. TERRELL McELHENY
SAMMYE ODEN RAY

August 6, 1984

Mr. Roderick DeArmnent
Chief Counsel, Committee on Finance
Room 219, Durkson Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArmnent:

Consistent with your requirements I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 & 30th by the United States Senate Finance Committee Subcommittee on Taxation and Debt Management. Thank you for your assistance.

Yours very truly,

C. Fred Daniels

C. Fred Daniels

CFD/cns
Enclosure

SUBMITTED AS PART OF THE RECORD
OF THE HEARING ON EMPLOYEE FRINGE
BENEFITS HELD ON JULY 26, 27 & 30TH
BY THE UNITED STATES FINANCE COMMITTEE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

By C. Fred Daniels

It is my understanding that the subcommittee held hearings for the purpose of determining whether or not the private employee benefit plan system needs or deserves any of the tax incentives which currently support that system. I submit to the committee that such support is needed and deserved.

It is incredible that someone would assert that the system serves no useful, social or economic purpose. To do so ignores the large number of rank and file employees who would have no income at retirement, other than Social Security, absent the savings built up for them through the private Employee Benefit Plan system. Moreover the assertion that the system primarily benefits highly paid employees is inaccurate. The complicated tax laws mandate that most, if not all, employees must be eligible to participate in the plan.

It is unrealistic to claim that the system would survive without tax incentives. No rank and file employee can afford to participate in a private employee benefit plan if he is forced to pay tax immediately upon money placed in trust to be paid to him when he retires. It is incredible that someone would assert that the private employee benefit plan system would survive such economic pressures on the participants.

While I strongly support individual retirement accounts and individual retirement account vehicles, the private employee benefit plan system should not be abandoned in favor of these vehicles. Individual retirement accounts are entirely voluntary plans. The people who need to save most for retirement are the ones least likely to use such accounts. It is only through the private system that funds are accumulated for these employees' retirement.

Whoever made the claim that private employee benefit plan systems have no "grass roots" support obviously has no contact with the grass roots of this country. The incredibly large number of individual participants certainly support the system and would be greatly opposed to its elimination.

In summary I urge that this subcommittee find that the private employee benefit plan system should be continued and encouraged.

DONAN ENGINEERING, INC.

JOHN G. DONAN, P.E. PRESIDENT
JOHN G. DONAN, JR., P.E. VICE PRESIDENT
FRANK N. DANIEL, P.E.
DAVID R. COBB, P.E.

P.O. BOX 528 · 407 BROWN ROAD · TEL. (502) 821-7343
MADISONVILLE, KENTUCKY 42431
22 SOUTH CLAY STREET · TEL. (812) 482-5611
JASPER, INDIANA 47546

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Very truly yours,

DONAN ENGINEERING, INC.
PROFIT SHARING TRUST

John G. Donan, Jr.
Trustee

JGD,Jr.:mdh

Submitted as part of the record of the hearing on employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

BY: John G. Donan, Jr.
Trustee

DONAN ENGINEERING, INC.
PROFIT SHARING TRUST
444 South Main Street
Madisonville, KY 42431

Donan Engineering, Inc. is a Subchapter "S" consulting engineering corporation with a private employee benefit plan system. This plan is commonly referred to as a "Profit Sharing Plan". Thirty one employees are presently covered under this plan.

As Trustee and representative of the covered employees, I wish to state for the record:

1. The majority of the covered employees do not have IRA's

2. The money in the plan plus anticipated contributions represents a significant part of the financial retirement planning of the covered employees.

3. The cash benefit from the plan plus social security income would help many who retire to maintain their present standard of living.

4. Many of us have little faith in the Social Security System. Congress can change the benefit schedule at will. The money in the Profit Sharing Plan cannot be taken away and is therefore more secure.

5. There would be no reason for either the Company or the employees to continue the Plan without tax incentives.

6. We recommend that the present laws and regulations covering employee benefit plans be left alone and allowed to work.

Doug Paine & Company, Inc.

SUBMITTED AS A PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30 BY THE UNITED STATES FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT.

BY: Douglas L. Paine

I am an enrolled actuary under ERISA and deal with employee pension and profit sharing plans on a daily basis. My many years of experience in this area, I believe, allows me to make some informed and enlightened comments that the Committee should find of interest.

That the private employee pension system provides a useful social and economic purpose is demonstrated to me almost every day. I am the individual who is usually responsible for certifying (ie. final computation) benefits for employees of client corporations. These monthly retirement benefits range anywhere from $25 to $7,500. It would be interesting to ask Mr. Ralph Ryder (the employee of a car dealership whose benefit is being certified today) if his $225 dollar benefit serves "a useful social and economic purpose", especially since other than social security and public assistance, this will be his only other source of retirement income.

The premise that these pension benefit programs will survive if tax incentives are removed contradicts the facts that I have actually witnessed since TEFRA. Many plans are terminating, and while it is true that these plans benefited (in the majority of cases) highly paid employees, benefits were also offered to the rank an file employees who now will have NO FUTURE PENSION BENEFIT ACCRUALS.

The idea that defined contribution plans can replace defined benefit pension plans and should do so is dangerous to the public welfare. The security and planning mechanisms of defined benefit pension plans can not be duplicated by IRAs or profit sharing plans. In my opinion, by moving away from such plans, Congress would be setting the stage for a class of senior citizens entirely or almost entirely dependent upon Uncle Sam for ordinary living expenses.

Rather than seeking means to increase taxes, why not cut expenses. A real AMERICAN HERO, a would be a Senator or Representative who ignored the special interest groups that are looking for free handouts and government subsidies.

Its strange that the very institution that passed ERISA, created minimum funding standards, and enrolled actuaries, which recognized the intended social good of pension plans, would 10 years later negate this for a quick revenue fix.

RESPECTFULLY SUBMITTED,

Douglas L. Paine

DOVER TEXTILES
DRAWER 208
SHELBY, NORTH CAROLINA
28150

DEAN GARVER
DIRECTOR INDUSTRIAL RELATIONS

STATEMENT OF DOVER TEXTILES IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at Dover Textiles believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees:

1. Profit Sharing Retirement Plan
2. Group Life, Health, and Dental Benefits
3. Employee Savings Plan
4. Income Disability Plan
5. Optional Life Insurance Program

We employee approximately 3,000 employees of which 90% are covered. The other 10% are in our waiting probationary period. We have the following number of employees covered in our benefit package:

Women	1140
Minorities	526
Non-management Employees	2479

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. Therefore, in regards to our health insurance we have implemented cost containment features such as raising the employee deductible and a co-insurance plan. We have also contracted a program with a private consulting firm to conduct medical review of all our claims. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

DOVER TEXTILES

Signed: H. Dean Garver
Director Industrial Relations

DG:bl

cc: Mr. Jack Vincent
Mr. W. W. Gainey, Jr.

8-2-84

SUBMITTED AS PART OF THE RECORD OF THE HEARING
ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30
BY THE UNITED STATES FINANCE COMMITTEE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

...

By: Dreckman Dental Laboratory, Inc.
Owens Medical Center
4112 Shelbyville Road
Louisville, Kentucky 40207

Speaking as the plan sponsor of an employer-funded pension plan, the private employee benefit plan system provides a useful and workable solution to the problem of providing sufficient retirement income for private sector employees. Such employee benefit plans established by private employers provide a necessary supplement to the social security income and personal retirement savings of retired workers. If the tax incentives currently supporting the private plan system, a system already beset by staggering plan establishment and maintenance costs, were to be eliminated, the result would most certainly be a sharp decline in the number of employer-sponsored plans.

Currently, the establishment of an employee benefit plan by a small business is a particularly expensive procedure. The elimination of the remaining tax incentives would put such plans out of the reach of most small businesses. Obviously, those lower income employees of such small businesses, who are the least likely to have accumulated sufficient personal savings and who most need the supplemental retirement income, would suffer the greatest hardship.

While recognizing that there are problems within the private plan system, the elimination of the current tax incentives supporting the system would simply result in the stagnation of pension plan growth and the ultimate demise of the system, rather than refinement and improvement of the system. The governmental objective should be to provide additional incentives to encourage expansion of the private plan system to the tradtionally low pension coverage industries, such as trades and services. Rather than contributing to the end of an already heavily-regulated plan system, steps should be taken to ensure that the private plan system and the benefits it provides for private sector employees be preserved.

DRESSER INDUSTRIES, INC. □ DRESSER BUILDING □ ELM AT AKARD □ DALLAS, TEXAS 75201

August 13, 1984

GENE E. LEESON
VICE PRESIDENT
HUMAN RESOURCES

EXECUTIVE OFFICES
214/748-6717

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen S.O.B.
Washington, D.C. 20510

Dear Sir:

This letter constitutes the written statement of Dresser Industries, Inc. regarding the hearing on fringe benefits scheduled July 26-30, 1984.

The private sector fringe benefit system is alive and well. It is performing magnificently the functions the tax incentives granted to it were designed to encourage. Economic security is afforded many millions of workers who otherwise would not have it. And this security is afforded at far less "cost" to the government than would be the case if such security were provided through governmental programs.

Recently, many voices have been heard stating that tax incentives provided to fringe benefit programs are "loopholes" that should be closed. Other voices indicate that the deficit must be cut by any and all tax-raising means, and fringe benefits are an area where this can be done with minimal damage to the average person.

These views are incorrect and shortsighted.

To begin with, the private sector fringe benefit system grew up in response to many years of governmental encouragement and employee needs. If the encouragement (tax incentives) were to be removed, many employers would cease to provide programs and simply increase cash compensation, since this would remove the administrative burdens and expenses of operating those programs.

Employees wanting to continue these protections could not do so - at least at the same benefit levels - for two reasons. First, they would have less after-tax money, and second, the cost of protection would be higher since they would be purchased at individual rather than group rates. Other employees would not purchase even reduced protection. As a result, there will be political pressures for governmental protection - which we all know would be far less cost effective, and less flexible in meeting changing needs.

Another misconception is that private sector fringe benefits afford disproportionate benefits to highly compensated persons and thus make "unfair" use of tax incentives. Fairness, like beauty, is in the eye of the beholder. Strict egalitarians view anything other than equal dollar benefits per employee as unfair. Many others believe that fairness is ensured where the value of fringe benefits for more highly compensated employees is no greater a proportion of total compensation than benefits for less highly paid employees.

As a matter of law and practise, no tax incentived fringe benefit program provides more highly compensated persons a greater proportion of total compensation than less highly paid individuals. And some programs, such as health insurance, approach dollar equality for everyone, while many, such as defined pension programs, provide significantly greater proportional benefits to less highly paid employees.

In other words, private sector fringe benefits overall, just as governmental programs overall (such as social security and medicare), already reflect a reasonable compromise between these competing notions of fairness. Thus, benefits overall are significantly skewed to provide greater proportional benefits to the less highly paid, but some recognition is afforded compensation differences. We believe continued tampering with this compromise in order to approach egalitarianism will stiffle further development of, and even diminish current private sector fringe benefits. The end result will be to hurt, rather than help, those who are less highly compensated.

With respect to the myths that private sector fringe benefits favor the highly paid, favor men over women, or favor other discrete groups have been irrefutebly denied by many studies performed and/or reported by the Employee Benefit Research Institute in Washington, D.C. These studies have been discussed and furnished to you by many others, so we will not repeat them here, but commend them for your close attention.

Before addressing the specific issues raised in the press release announcing the hearings, we wish to state that we believe the potential revenue enhancement from major changes in tax laws relating to fringe benefits is far less - particularly in the long run - than the amounts

usually mentioned. Most importantly, these figures ignore the fact that much of the tax "loss" is actually a tax deferral.

Following are our comments on the specific issues raised in the press release.

1. Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

Comment: We believe the tax law should encourage private sector fringe benefits and cite the sound programs in existence on account of such encouragement in the past. See the ERRI statistics. Thus, we also believe the existing tax situation is approximately the correct one, except that we feel the severe limitations on prefunding of retiree benefits (other than pensions) recently enacted was a big mistake.

2. What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

Comment: Except as noted above, we feel existing conditions and restrictions are adequate and generally appropriate. As an employer of some 30,000 employees, we feel that the $90,000 qualified pension limitation is too low, and that the $50,000 life insurance exclusion limit is terribly unrealistic.

3. Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

Comment: As noted earlier, fringe benefits are already significantly skewed in favor of lower paid employees (as a proportion of compensation) and on this basis existing rules are more than "fair" to them, while the preservation of some recognition of total compensation probably makes the programs "fair" to the more highly paid.

4. Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad

cross section of employees at a lower toal cost than if the Government provided the benefit directly, if employers provided the benefits on a taxable basis, or employees purchased these benefits on their own?

Comment: The EBRI studies prove that fringe benefits have been provided to a broad cross section of employees as a result of tax incentives. This is certainly the case in our company since salaried employees are offered essentially the same tax-incentived programs irrespective of salary level. (Most hourly employees are in programs negotiated with unions). It is problematical whether employers would provide programs on a fully taxable basis (there being far less incentive to incur the problems and expense of operating them). Individual premiums for coverage is always substantially higher than group premiums. Governmental provision would lack appropriate flexibility and certainly cost more.

5. How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

Comment: Such laws clearly divert funds that would otherwise be paid as cash compensation into fringe benefit programs since the employee derives greater monetary value as well as protection, thereby benefiting both employer and employee.

6. Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

Comment: For most potential employees, factors other than the type and extent of fringe benefits determine which employer's offer will be accepted, since most employers offer a basic range of such benefits. If tax incentives were to be removed, most employers would decide whether to continue the programs based on similar actions by competing employers.

In summary, Dresser believes strongly that the long established governmental policy of providing tax incentives for fringe benefit programs has resulted in a situation where the bulk of American workers are being provided significant protection against both the expected (retirement) and unexpected (illness, disability or death) viscissitudes of life. This protection is far more cost-effective than would be similar protection under govern-

mental or individual programs, and is provided on a basis that is "fair" to all groups and income levels. It is important that the success of this policy be realized and that the policy be reaffirmed in some strong and lasting fashion to permit employers to make lasting commitments to their employees concerning their protection.

Very truly yours,

Gene E. Leeson
Vice President
Human Resources

GEL:bw

STATEMENT OF DUNHAM MANUFACTURING COMPANY, INC. IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at Dunham Manufacturing Company, Inc. believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees: A full major medical/dental/life insurance plan. We have 332 employees with approximately 95% participation. This includes about 8% women, 35% minorities and 90% non-management employees. All medical and dental insurance is identical for all employees whether management or hourly factory workers. We also provide a type of disability insurance for all employees.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. At our last insurance renewal, we changed from a full premium plan to a modified self-insurance plan and have seen a monthly gain to date. We also raised our deductible in an effort to cut down on first dollar coverage. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Durham Morning Herald
THE DURHAM HERALD COMPANY, INC.
THE DURHAM SUN

115 MARKET ST. / DURHAM N.C. 27702

July 25, 1984

Senate Finance Committee
Room 219 Dirksen Senate Office Building
Washington D. C. 20510

Gentlemen:

We understand that your Committee is scheduled to hold hearings on centain aspects of the taxation of employee fringe benefits.

This letter is being written to you and for the record that our Company supports the current tax favored treatment of employee pension and welfare benefits. We strongly urge you consider this in your hearings. As you well know the cost of employee fringe benefits has sky-rocketed over the past few years and represent a major expenditure to the employer. Without an incentive, it will hurt our employees also.

Thank you for your attention to this matter.

Very truly yours,

The Durham Herald Co. Inc.

Vincent Damiano
Vice-President, Treas.

Ear, Nose, Throat & Allergy Clinic, Ltd.
2100 Green Acres Rd.
Fayetteville, Arkansas 72701
(501) 521-3363

Glen Fincher, M.D., F.A.C.S.
Diplomate of the American Board of Otolaryngology
Fellow of the American Academy of Facial Plastic and Reconstructive Surgery

Martha Hutson, M.D. F.A.A.P., F.A.C.A.
Diplomate of the American Board of Pediatrics
Diplomate of the American Board of Allergy and Immunology
Practice Limited to General Allergy

Laura J. Koehn, M.D.
Diplomate of the American Board of Allergy and Immunology

Grover Hutson, M.S., C.C.C.-A.
Audiologist

Thomas W. Tedford, M.T., A.S.C.P.
Clinical Lab Supervisor

Ima Lou Backstrom, CMA
Office Manager

Helen Wells
Administrative Supervisor

Sue Salisbury
Allergy Supervisor

July 23, 1984

Mr. Roderick A. DeArment
Chief Council
Committee On Finance
Dirksen Senate Office Building
Room SD-219
Washington, DC 20510

Dear Mr. DeArment:

I am writing concerning the hearing of July 26, 27, and 30, 1984 on the subject of Taxation of Employee benefits. I would like to encourage you to work toward preservation of employee benefits as they now exist. In my company the benefits do not go only to men. Approximately 80% of the benefits, in fact, go to women. We are working to adjust for inflation and protect our employees from the severe damage resulting from inflation. Our employees will suffer if these benefits are eliminated. I consider these employee benefits essential to the economic security of our employees and their dependents.

I believe we can administer the employee benefit system more economically than the government program which might be created to replace it.

Yours truly,

Glen Fincher, MD

Glen Fincher, M.D.

GF:sa

July 26, 27 and 30, 1984

Taxation of Employee Benefits

We carry a hospitalization and life insurance plan on and for our employees, whether they be men or women. There is no discrimination whatsoever as they are all treated alike. Since we are not able to provide higher wages for our employees, this fringe benefit is an incentive to them to stay with us where our turnover is not constant. If we did not provide this insurance for them, they would be without for it is very difficult in these days to add any extras to the already high cost of living . . . after taxes, their take-home pay isn't enough to handle any additional expenses. I'm afraid that if our employees had any additional taxes to pay there would be some priorities they would have to forego and we're afraid the insurance might be one of the first since they have to sleep and eat. What they would do without the insurance in case of need is beyond imagination with the escalated hospital and physicians' charges these days. The added stress on the individual would certainly not be very conducive to good workmanship for Easter Machine.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

EASTER MACHINE & MANUFACTURING COMPANY

JOHN EASTER
OWNER

EQUITABLE
INSURANCE COMPANIES

'984 AUG -7 AM 9:59

August 3, 1984

The Honorable Bob Packwood
U.S. Senate
Washington, D.C. 20510

Dear Senator Packwood:

As one who has been personally involved with private pension plans and other employee benefit plans for over 30 years, I am writing to you in your capacity as chairman of the Senate Finance Subcommittee on Taxation and Debt Management.

I hope that your subcommittee's deliberations on tax policy issues related to fringe benefits will produce objectivity, continuity of policy, and reasoned judgment. Such results are sorely needed if piecemeal legislation of the TEFRA and Deficit Reduction Act type is to be avoided. Such legislation is unsettling and brings about horrendous administrative costs and detail far in excess of the tax revenue generated, I would venture. It also makes employers wary about installing and maintaining valuable and needed employee benefit programs. To make it worse, there are back to back changes in some instances, e.g., TEFRA reduced the estate tax exclusion under Section 2039(c) of the Code to $100,000; then, less than two years later, the Deficit Reduction Act eliminated the exclusion entirely. Other areas similarly affected are the group term life insurance rules and top-heavy rules. How in the world can an employer be expected to keep his programs in line with laws which are constantly changing? With an unlimited marital deduction, I cannot believe that elimination of the $100,000 exclusion is a revenue raiser and I doubt if it can be classified as reform. Think, though, of the estate plans which must again be reviewed and modified.

Rumors abound that there will be another round of pension legislation next year, not to mention fringe benefits generally. I hope not! Congress has been up to bat twice in less than two years and merely succeeded in changing the rules in the middle of the game.

I realize that this is a time when Congress is searching for ways of raising revenue, but retirement plans in particular and employee benefit plans generally are a poor place to look for it. Individuals have a hard enough time providing long-range security for themselves. Their places of employment have become an important source of that security. But, employers need tax deductions if they are going to be able to provide appropriate benefit programs. Such programs are part of a comprehensive compensation package and are a cost of doing business. If the employer does not provide the benefits, who will? Certainly not the government -- it has already proven that it cannot handle the job -- nor should it. The government, at least in the past, has seemed to be motivated by what is politically feasible, not by what is economically affordable.

I also find it strange that there seems to be a "punish pensions" mood prevailing in Congress. I would think that the private pension system, besides providing capital for investment in our economy, would be actively considered in looking for a viable, long-term solution to Social Security (as a floor of protection), private pensions, and personal savings. The latter component has been helped significantly, but more needs to be done. Unfortunately, not all working people can afford Individual Retirement Accounts. If individuals are either taxed on fringe benefits or must pay for them personally, we can be assured that there will not be funds for personal retirement savings.

Private pension plans, in my opinion, are an absolutely essential supplement to private retirement savings and Social Security. Without such plans, retirement income for many individuals will be neither comfortable nor adequate. Thus, there will be greater pressure on Social Security and forms of public assistance. However, as indicated above, it is apparent that public programs do not work and are not affordable.

The Tax Equity and Fiscal Responsibility Act and now the Deficit Reduction Act are in place. We can only hope that the adverse effect on private pension plans will not be great. However, experience following the enactment of ERISA would seem to indicate otherwise. Once again, plans will have to be amended and costs of installing and maintaining plans will increase. It's no wonder that employers throw up their hands and terminate their plans. It has become an atmosphere of waiting for the other shoe to drop. This is all very strange when the administration has vowed to cut back on excessive regulations, reports, and red tape. Speaking of regulations, it does not help when it takes the IRS literally years to issue even proposed regulations -- and then tries to make them retroactive.

Simple logic would indicate that the private pension system and other employer sponsored benefits should be nurtured, not curtailed. This is especially true in the smaller employer group where more employees must be covered by employer sponsored retirement and other fringe benefit plans. This is the area where there is the greatest shortfall in coverage.

TEFRA's crippling legislation was supposed to inject equity into the private pension system. Now, even if this is true, why wouldn't it be just as logical and equitable to permit <u>all</u> employers who establish retirement plans to gain the same advantage in deducting pension contributions, etc. by allowing <u>all</u> employers a deduction at the top marginal rate of 46%? After all, if there is to be true equity, why shouldn't every employer (with employees) be able to have every dollar of contribution treated the same for tax purposes? This would produce greater equity for contributions <u>going into</u> the plan as well as for dollars <u>already in</u> the plan. We should not have to worry about discrimination in favor of key (highly paid) employees because of the provisions of TEFRA -- and now the Deficit Reduction Act.

Small employers are taxed at lower marginal rates, so have less incentive to establish and maintain plans than large employers. However, this proposal would not benefit larger, more profitable employers. It just would put all pension contributions on an equal footing. It has long been accepted that tax deductions for pension (and other fringe benefit) contributions serve a worthwhile, social purpose. This is indeed sound tax and social policy. The objective must be to see more employees covered, not less. Certainly, there are enough precedents for subsidies and incentives for other sectors!

In one sense, this may seem like a bad time to be providing additional incentives when both the administration and the Congress are looking for ways of increasing revenues and decreasing the deficit. However, employer sponsored plans are closely linked with the health and financial security of employees -- both now and in the future. They are also a means of confining Social Security to fulfill only its stated mission. I read recently that about one in four tax-paying households pay more in Social Security tax than in income tax. These are individuals who cannot afford more Social Security tax -- generally less than $9,000-$10,000.

Private pension plans are a vital component of a viable retirement system -- and a major part of the long-term solution to Social Security's problems. In addition, private pension plans are a source of capital accumulation which will provide continuing assistance to our economy -- unlike a transfer of funds like Social Security and other government plans.

The prevailing attitude of Congress must stop -- piecemeal legislation (often resulting in overkill), quick fixes, trying to find a fast buck, etc. -- all to the detriment of a growing fringe benefit sector funded by private, tax-deductible dollars. What is really needed is a national policy on retirement income and other fringe benefits. Then, legislation could be coordinated and guided, rather than fragmented and ill-directed. Perhaps, your subcommittee could work toward such a national policy.

It is unfortunate that your subcommittee's hearings did not precede enactment of the Deficit Reduction Act -- indeed, TEFRA. The results may well have been far different. I wish you and your associates well in attempting to develop a sound policy -- well thought out with a view toward the long-term needs of all.

Sincerely,

EQUITABLE LIFE INSURANCE COMPANY OF IOWA

R. C. Higgins
Marketing Services Vice President

RCH:sw

E-SYSTEMS

August 10, 1984

The Honorable Robert W. Packwood
U.S. Senate
259 Senate Office Building
Washington, D.C. 20510

RE: Hearings on Fringe Benefits
July 26, 27 and 30

Dear Senator Packwood:

The employees of E-Systems, Inc. currently enjoy what is considered an excellent fringe benefit package for the high technology electronics industry. This package has evolved since E-Systems became a publicly-owned company in 1972. The major fringes currently include salaried and hourly pension plans, ESOP, PAYSOP, long and short-term disability, medical and dental insurance, accidental death and dismemberment insurance, life insurance, savings plans and our Flexible Compensation program which was implemented on January 1, 1984. The Flexcomp program allows employees to choose the type and amount of benefits they desire depending upon their personal situation. With the introduction of the Flexcomp program, E-Systems also introduced a 401(k) plan and a flexible spending account whereby employees are encouraged to save and also are given the opportunity to pay their medical and dental expenses not covered by insurance with pre-tax dollars. We are in disagreement with the current proposed IRS regulations regarding flexible spending accounts and will continue to work for their revision.

I mentioned the above to indicate that E-Systems does care about the welfare of its employees both while they are employed and after retirement. We feel that we have built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

We have designed our benefit program for the benefit of all employees and not just the highly paid individuals or male employees. We have made several changes to all of our benefit plans over the past several years that benefit every employee. The Congress should not come along and destroy the benefits that have been built up over the years. Rapid changes in the law intimidate the planners and reduce the level of constructive experimentation. The process for dealing with change needs to be more sympathetic to the practical problems of employees in developing benefit programs and in communicating these with a consistency that gives employees confidence.

If benefits are not provided by employers, there will still be a demand for them, and that demand will be filled by the government -- probably at a higher cost than the projected revenue loss as well as less efficiently. We have to look beyond the current rhetoric and recognize that the majority of employee benefits are enjoyed by the rank-and-file worker and not the highly compensated.

We certainly advocate a cautious approach in looking for new revenues by attacking employee benefits. Very little revenue will be raised in this manner and will probably discourage the offering of them to more employees. Much of what is called lost revenue is really deferred revenue and the fact that contributions to private pension plans are important in the formation of new capital to finance businesses should not be ignored.

Failure to distinguish among the growth of legally required employee-provided payments, fully-taxable employee benefits, tax-deferred payments and tax-exempt benefits has greatly distorted the perception of the tax base erosion that can be attributed to tax-favored and tax-exempt benefits. If employers no longer receive tax breaks for offering benefit plans and the benefits become taxable to employees, then employers will reduce or drop benefit plans. It has been proven in several surveys that where benefits are taxable, employees don't want them, even if the benefits are needed to protect themselves and their families.

The argument could be made that if benefits were taxable, employees would pressure their employers to give them more cash instead of giving them the benefits. While this might raise more revenue, it would also encourage workers to take risks with their security. Taxation of these benefits might create short-term revenue solutions but it would most certainly create long-term social problems.

A final word. It appears that representatives from Treasury and selected congressional staffs have hit the panic button over the loss of revenues because of employee benefits. In addition, they are inferring that abuse of pension plans in favor of male employees or highly paid employees is widespread. This is simply not true. It would not be fair to say there is no abuse in employee benefit plans, of course there is. But we don't need a shotgun to kill a mosquito. In 1979, E-Systems improved its retirement plans that benefitted all of the lower paid employees. This action, in effect, raised their total retirement pay from 60% to approximately 75% of their final year's salary. We are currently reviewing more changes to our retirement plan to further enhance and improve the total benefit package for both active and retired employees. These changes, amounting to approximately $15 million will not result in any additional contributions by E-Systems to the retirement trusts and thus no revenue loss to the Treasury. This is due to the investment returns of the trust over the past several years. This has been possible due to current tax law and regulations. Therefore, we feel very strongly that the Congress should not tamper with the employee benefit area in searching for ways to raise revenue. Instead we need a national policy for employee benefits in order to resolve some of the contradictory policy among all of the 70 or so governmental agencies which are responsible for regulating the industry.

We appreciate the opportunity to offer our comments on this topic and would certainly be willing to cooperate with you in any manner you deem desirable.

Respectfully,

D. E. Bird
Corporate Director
Employee Benefits

EWEN, MACKENZIE & PEDEN, P. S. C.
ATTORNEYS AT LAW
650 STARKS BUILDING
LOUISVILLE, KENTUCKY 40202-2509

VICTOR W. EWEN
WILLIAM A. MACKENZIE
WILLIAM B. PEDEN
JOHN G. CRUTCHFIELD
WAYNE J. CARROLL
THOMAS G. MOONEY
JAMES C. HICKEY
Wm. CLIFTON TRAVIS
G. DUNCAN GARRISON
IVAN J. SCHELL
MICHAEL E. LANNON
A. CAMPBELL EWEN
MAXINE E. BIZER
ROBERT A. MARSHALL

582-1110
AREA CODE 502

OF COUNSEL
R. THOMAS BLACKBURN, JR.

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, we are submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

William B. Peden

William B. Peden

WEB:ph
Enclosure

SUBMITTED AS PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30 BY THE UNITED STATES FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

By: EWEN, MacKENZIE & PEDEN, PSC
650 Starks Building
Louisville, Kentucky 40202

Speaking as the plan sponsor of an employer-funded pension plan, the private employee benefit plan system provides a useful and workable solution to the problem of providing sufficient retirement income for private sector employees. Such employee benefit plans established by private employers provide a necessary supplement to the social security income and personal retirement savings of retired workers. If the tax incentives currently supporting the private plan system, a system already beset by staggering plan establishment and maintenance costs, were to be eliminated, the result would most certainly be a sharp decline in the number of employer-sponsored plans.

Currently, the establishment of an employee benefit plan by a small business is a particularly expensive procedure. The elimination of the remaining tax incentives would put such plans out of the reach of most small businesses. Obviously, those lower income employees of such small businesses, who are the least likely to have accumulated sufficient personal savings and who most need the supplemental retirement income, would suffer the greatest hardship.

While recognizing that there are problems within the private plan system, the elimination of the current tax incentives supporting the system would simply result in the stagnation of pension plan growth and the ultimate demise of the system, rather than refinement and improvement of the system. The governmental objective should be to provide additional incentives to encourage expansion of the private plan system to the tradtionally low pension coverage industries, such as trades and services. Rather than contributing to the end of an already heavily-regulated plan system, steps should be taken to ensure that the private plan system and the benefits it provides for private sector employees be preserved.

Ex-Cell-O Corporation

Executive Offices
2855 Coolidge • Troy, Michigan 48084 • 313/637-1000

July 27, 1984

Senate Finance Committee
Room 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Attention: Roderick A. DeArment
Chief Counsel

Gentlemen:

We appreciate this opportunity to submit a statement on the taxation of fringe benefits.

Ex-Cell-O Corporation, through divisions and wholly-owned subsidiaries, hereinafter collectively called Ex-Cell-O, manufactures a variety of products for the aerospace, automotive, capital equipment and defense industries. Ex-Cell-O employs approximately 13,000 people in the United States.

On May 1, 1984, Ex-Cell-O implemented a flexible benefits program (a cafeteria plan under Section 125 of the Internal Revenue Code of 1954) covering all of its U.S. based salaried employees, of which there are 4,200 in 41 locations in 16 states. The program includes four comprehensive medical insurance options, two levels of dental insurance, five employee life insurance choices, four options of life insurance on the employee's spouse and dependent children, the ability to buy or sell up to five vacation days, reimbursement accounts for health care and dependent care expenses, and a savings plan under Section 401(k).

Our flexible benefits program was structured as a benefit bank with the employee spending benefit dollars for the options desired. If the employee spent more than Ex-Cell-O deposited

in the account, the difference is made up through salary reduction spread evenly throughout the plan year. Conversely, any excess of credits left in the bank will be paid to the employee in cash during the plan year.

The process of designing, communicating and implementing this program caused a lot of thought to be given to fringe benefits and their value to our employees.

The growth in the number of fringe benefits and the cost of the benefits over the years has been well documented. The cost of benefits provided our salaried employees exceeds 40% of their compensation. In other words, for each $1,000 in salary, Ex-Cell-O spends over $400 for pensions, group medical and life insurance, Social Security, workers' compensation, etc. We believe that a significant factor encouraging benefits to increase faster than cash compensation is the progressive income tax system. As more employees are pushed by both real pay increases and by inflation into higher tax brackets, the pressure to compensate with tax-favored benefits has increased.

Many benefits were provided as entitlements, thus resulting in even higher costs. The best example of this phenomenon is group hospital-medical-surgical insurance. Many years ago the tax law was changed to allow employers to provide this insurance without tax consequence to the employees. Many employers did so and the cost of the insurance was modest. However, this benefit was in the form of an entitlement which meant that neither the users nor providers had any incentives to watch costs. In fact, the system gave providers an economic incentive to increase costs. Of course, the cost increased.

Any tax law which allows benefits to be provided in a tax favored way will erode the tax base thus reducing tax revenue.

That must be weighed against the social good of providing medical care, life insurance, etc. for a broad group of citizens. There are undoubtedly many methods available in balancing these two objectives. One would be an overall limitation on non-taxable benefits as a percentage of total compensation. For example, non-taxable benefits, excluding those legally mandated, could be limited to one-third of total compensation including benefits. It would seem that an overall limitation would be preferable to separate limits on each type of benefit. In concept an overall limit could eliminate existing restrictions on pension and profit sharing plan contributions since such contributions would be included in the non-taxable benefits subject to the limitation.

On the question of discrimination, it appears to be assumed often that non-taxable benefits favor the higher paid employees. In terms of after-tax consideration, that may be correct, but only because the higher paid are in higher tax brackets. In terms of non-taxable benefits compared with cash compensation, generally, lower paid employees receive a greater proportion in the form of benefits. In Ex-Cell-O's case, that is caused mainly by the cost of medical and dental insurance where the amount and cost of coverage is not related to cash compensation. The legally mandated benefits also cost more as a percentage of compensation for lower paid employees than for higher paid ones. If discrimination really is a problem, perhaps a test similar to the one used for Section 401(k) plans could be devised. The average cost of non-taxable benefits for the higher paid one-third of employees couldn't exceed that for the lower paid two-thirds by more than 50%. This would be a relatively simple test yet would seem to eliminate potential abuse.

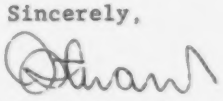
As to the type of benefits which an employer should be able to provide without tax consequence to employees, we suggest that they be broadened slightly to include a reasonably limited amount of life insurance on the employee's spouse and dependent children.

When both spouses are employed, each can get up to $50,000 coverage tax-free, a total of $100,000 for the family. If only one spouse is employed or if a single-parent family is involved, the limit is $50,000. It would appear to serve a legitimate public purpose to allow an employer to provide life insurance on an employee's spouse of up to $25,000 and on each dependent child up to $12,500 without tax to the employee. Amounts in excess of the limits would result in imputed income to the employee.

Although there are many more benefits which could be added to the tax-free category, we believe that doing so would unnecessarily erode the tax base and just shift more of the tax burden to those who don't happen to get the benefit.

We described earlier in this statement the flexible benefit plan which Ex-Cell-0 has provided for its salaried employees. We're convinced that cafeteria plans are most efficient in permitting selection of benefits for individual circumstances while providing the employer with the ability to control overall costs and should be encouraged.

Sincerely,



T. J. Stuart
Vice President
and Treasurer

TJS:jk

E. L. AYERS, Manager

FAIRFIELD ELECTRIC COOPERATIVE, INC.

Telephone:
Business Hours 635-4021
Night/Holidays 635-4023

P.O. Box 150 WINNSBORO, S.C. 29180

July 26, 1984

Mr. Rodrick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

RE: Hearing on July 26, 27, & 30, 1984
TAXATION OF EMPLOYEE BENEFITS

Dear Mr. DeArment:

I would like to address the matter of taxation of employee benefits which will be the subject of the hearing on July 26,27,30, 1984. Our business provides benefits to its employees which, in many cases, I do not believe they would provide for themselves. These benefits are provided by the Cooperative to ALL employees and it is my sincere opinion that our people will suffer if employer sponsored benefits did not exist.

We have several examples of employees who would have suffered economically without these benefits. We have had in the last few years five (5) employees who have retired early due to disabilities. They would not have been able financially to have retired had it not been for the employer sponsored long term disability plan.

We feel that we have an effective and efficient program covering the needs of our employees and that our employee benefit package is far superior than any government program which might be devised to replace it. It should not be systematically dismantled in other to increase tax revenues.

Our employee needs are here and must be met. The present system encourages employers to provide these needs and a change in the tax policy would discourage employers. I sincerely believe that it would ultimate mean more people on state and federal welfare programs due to disabilities, inadequate retirements, illness, etc.

I urge your committee to consider the contribution being made by employers in providing for these needs.

Sincerely,

E. L. Ayers, General Manager

ELA:cab

39 707 0640

Family Guidance Center | Community Mental Health Center

910 Edmond — Suite 100 Saint Joseph, Missouri 64501 (816) 364-1501

July 25, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Mr. DeArment:

RE: Hearing Dates - July 26, 27 and 30
Subject - Taxation of Employee Benefits

Please accept this statement on the matter of proposed taxation of employee benefits.

As an organization providing human services to our area we are dependent upon an expertly trained and effectively functioning staff in the delivery of these services. In addition to base salaries, our personnel benefit offerings are of critical benefit to our employees and serve as part of their basic system of support for themselves and members of their families.

The personnel benefits of this Center include, health and life insurance, pension and disability coverage along with appropriate leave for illness and vacation. By organizational policy these benefits are offered equitably to all employees at various salary ranges, and to both male and female. As an organization we feel our greatest asset is our employees and their needs being sufficiently met is of primary concern. Employer-sponsored benefits which are offered them are necessary for their effectiveness as employees and without them our organization would be greatly weakened as we depend upon the health and sound adjustment of our staff. These benefits are essential to the economic security of our employees and their dependents and make possible their personal investment in the programs and services of this Center.

The provision of health and disability insurance is especially critical to our lower salaried employees and offers them the same and equal secruity that is offered employees in the higher salary ranges. Without this equitable provision the lower salaried family might find such security unaffordable and in an emergency situation in need of public support to meet basic family needs.

A private orgainzation such as ours has built an effective and efficient coverage for the needs of our employees through the existent employee benefit system. The employee needs are there and must be met. We feel we are meeting those needs with equity, appropriateness and flexibility in a way that could not be duplicated by a government-sponsored, public program. The need to manage costs of such programs is recognized while at the same time we are able to reach maximum goals in personal support of our employees.

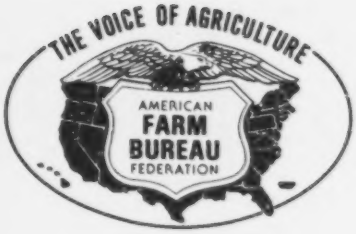
We feel strongly the present tax exempt status of employee benefits should continue. Any effort to dismantle the present provisions for exemption would create numerous hardships for our employees and our organization as a whole.

Thank you.

Sincerely,

Norman Tolo,
Executive Director

NT:rm-k



★ FARM BUREAU ★

** the nation's largest general farm organization **

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE COMMITTEE ON FINANCE
REGARDING TAX DEDUCTIBILITY OF HEALTH INSURANCE PREMIUMS
FOR THE SELF-EMPLOYED

July 23, 1984

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE COMMITTEE ON FINANCE
REGARDING TAX DEDUCTIBILITY OF HEALTH INSURANCE PREMIUMS
FOR THE SELF-EMPLOYED

July 23, 1984

The American Farm Bureau Federation is pleased that the Subcommittee is holding hearings on tax policy issues surrounding fringe benefits. We note that the Subcommittee will be examining a number of questions including: "Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?"

To assist the Subcommittee in developing "a full, fair hearing record on current fringe benefit topics" we have modified the question to reflect our concern about the equity of current tax treatment of health insurance premiums for the self-employed. This is an important issue for the nation's farmers and ranchers, most of whom are self-employed sole proprietors.

No group is more aware of the financial grip of high health insurance premiums than self-employed individuals, particularly farmers. Together with employees who do not receive employer-financed health insurance as a fringe benefit, the nation's 7.8 million self-employed business people must confront the serious inequity that exists in the use of income tax deductions to subsidize health insurance for other groups of workers.

While the Internal Revenue Code permits an employer to deduct employee health insurance premiums as a business expense (IRC 162) and treats the premiums as a tax-free fringe benefit to the employees (IRC 106), this type of tax treatment is not available to the self-employed worker. The self-employed person gets no deduction, but must buy health insurance with after-tax dollars. Currently, the only way a self-employed individual can deduct any amount of health insurance costs is if the premium is included in an aggregate of itemized medical expenses constituting more than 5 percent of adjusted gross income (IRC 213).

The denial of a deduction is apparently because health insurance is considered a personal expense rather than a business expense. Farmers and ranchers disagree with this short-sighted reasoning. Farmers, like other small business people, conduct business activities common to both employers and employees. The work environment of a farmer is often hazardous and not infrequently presents danger to life and limb from the use of heavy equipment and chemicals. Insurance is necessary to cover the costs of unexpected injury and illness stemming from the farming occupation. Health insurance is a cost of doing business that farmers as business owners cannot afford to be without. We believe it is a reasonable request that a self-employed person be able to deduct his or her insurance premium as a business expense.

There is also a question of equitable tax treatment among farmers who have different business organizations for their farming operations. A farmer who is a sole proprietor or in a partnership cannot deduct the cost of health insurance premiums as a business expense. However, if the farm is incorporated, the farmer can be classified as an employee of the farming corporation. The corporation, as the employer, can deduct the cost of health insurance as a business expense, and the farmer, as the employee, can receive the health insurance tax-free.

The vast majority of farms in this country are operated as sole proprietorships. The 1978 Census of Agriculture indicated that 88 percent of all farms with sales of $2,500 or more were sole proprietorships, 10 percent were organized as partnerships, and 2 percent were incorporated. These figures translate into approximately 2.14 million sole proprietorships operated by farmers.

The Subcommittee will be interested in the amount of health insurance premiums that farmers pay. In Iowa the 1983 monthly cost of comprehensive major medical group plan insurance with no deductible was $84.15 for a single person and $185.27 for a family. This equals $1,010 and $2,223 on an annual basis. In Michigan where age ratings apply, the annual family rate premium ($0 deductible) was $2,120 for insureds under age 45. The annual cost jumped to $3,150 for those between 45-54 and to $3,474 between 55-64. Even plans with deductibles are expensive. For instance, the 1983 family rate in Kansas for insureds age 40-44 with a $600 deductible was $778. The 1984 family rate in Texas for insureds age 40-44 with a $2,000 deductible per person per year is $1,320.

The rates illustrate the high out-of-pocket costs that farmers pay. Remember that they take no deduction for this cost although their in-town neighbors who work for a business that provides health insurance can receive the same coverage as a tax-free fringe benefit. Also, bear in mind that the Tax Equity and Fiscal Responsibility Act eliminated the $150 deduction for health insurance premiums that all taxpayers could have applied against the cost of their health insurance premiums.

We believe that the following arguments support a legislative remedy to this problem:

EQUITY

As previously mentioned, the federal government is subsidizing health insurance for taxpayers receiving employer-financed health insurance at the expense of two other groups of taxpayers who cannot take advantage of current tax code provisions: (1) Self-employed taxpayers such as farmers and, (2) Employees who must buy their own coverage.

Even if Congress restricts the current tax-free status of employer-financed health insurance, the inequity will remain. Those employees currently receiving such benefit will continue to receive a certain level of coverage tax-free since all or a portion of the coverage will fall below the tax threshold amount of $840 per individual or $2,100 per family as proposed by the Administration.

PRECEDENT

The Social Security Act amendments of 1983 moved toward equity between employers and the self-employed in Social Security tax treatment. The new law provides that self-employed individuals will be able to take a tax credit for 1984-1989 against the self-employment tax that they must pay. After 1990, a new system of income tax deductions will be available to self-employed taxpayers. The deduction will be equal to one half of the amount of self-employment taxes paid for the taxable year.

A deduction or credit for the cost of health insurance premiums could be patterned after the credits/deductions enacted in the Social Security legislation.

RISING HEALTH CARE COSTS

Much has been said about the issue of health care insurance for the unemployed. The employed, as well as the unemployed, are hurt by rising health care costs, particularly those in hazardous occupations such as farming who may pay higher premiums because of higher risks.

HIGHER TAXES COMPOUND CASH FLOW PROBLEMS FOR FARMERS -- HEALTH INSURANCE DEDUCTION COULD HELP EASE THE PROBLEM

Farmers have been hit recently with higher Social Security taxes, gasoline taxes, and excise taxes. An appropriate health insurance premium deduction would ease the increasing tax burden on self-employed people, help compensate for direct, out-of-pocket expenses for health insurance, and lead to more equitable tax treatment of health care coverage.

We draw the Subcommittee's attention to two bills, H.R. 3487 (Latta; R, Ohio) and S. 2353 (Grassley; R, Iowa), that would allow the self-employed to deduct one half of health insurance premiums as a business expense. Farm Bureau members across the country are working hard to gather support for these bills as well as other legislation that would eliminate the inequity that exists in the tax treatment of health care insurance. As of mid-July, H.R. 3487 had 136 co-sponsors and the Senate bill had seven co-sponsors. We believe that this legislation is a fair and reasonable response to provide equity for self-employed individuals.

On behalf of 3.3 million Farm Bureau member families, we ask you and the Subcommittee members to lend your support to this legislation.

FARMERS & MERCHANTS BANK
OF LONG BEACH
MAIN OFFICE
302 PINE AVE., LONG BEACH, CALIFORNIA 90802
TELEPHONE AREA (213) 437-0011

August 1, 1984

Senate Committee on Finance
Room 219, Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sirs,

The current attempt to include employer-paid benefits as taxable income would seriously affect the medical and financial well-being of all employees.

Most employer-paid benefits, such as life insurance or major medical coverage, goes to employees earning under $25,000.00 per year. In our company, 94% of the employees earn less than $20,000.00 per year. These people cannot afford the additional taxes that would be imposed if the dollar amount of the benefit package was added to their regular salary. An employee earning $20,000.00 per year would be responsible for $211.00 to $480.00 extra in taxes per year. An employee earning $10,000.00 per year would be responsible for $163.00 to $365.00 extra in taxes per year. Many employees would decide that the $163.00 to $480.00 looks better to them than the medical or life insurance. The attitude would be, "I know I can use the money, but I may never have need for the insurance. Why should I pay that much for it?" These employees would decline insurance coverage. If they did become ill, medical care would probably have to be provided at government, that is, taxpayer expense. Those who elected to keep the insurance and pay extra taxes would be providing for those who declined insurance to save money. This is not a very fair situation. We would predict,

though, that many employees, if taxed on employer-paid benefits, would decline those benefits.

If employers were taxed by eliminating the deductibility of employer contributions, there would be no encouragement to provide benefits. When employers provide benefits, the government is relieved from providing benefits. If employers do not have an incentive to provide those benefits, many employers will eliminate or reduce benefits.

At a time when health care costs are rising, it is extremely important for everyone to have insurance coverage so they can obtain the best care possible. It would be a shame to tax this important benefit out of existence by imposing heavy tax burdens on employee or employer. And for every benefit, whether medical, life or pension, that is taxed out of existence, there will be a need for government to provide replacement benefits. This will use up all the tax dollars gained by benefit taxation, should any tax dollars be gained. We feel the best solution for everyone, employee, employer and government, would be to continue to regard employer-paid benefits as tax exempt.

Sincerely,

Kenneth G. Walker
President

FEDERAL PAPER BOARD COMPANY, INC.
75 CHESTNUT RIDGE ROAD
MONTVALE, NEW JERSEY 07645

SIDNEY J. POPE
TREASURER

July 31, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

FEDERAL PAPER BOARD COMPANY, INC.

Sidney J. Pope

SJP/eg

Sidney J. Pope

BY Sidney J. Pope, Treasurer
Federal Paper Board Company, Inc.

STATEMENT

Federal Paper Board Company is a manufacturing company in the forest products and paper industry with annual sales in 1983 of $569 million. It employs 4300 people at fifteen manufacturing plants in principally ten different states. The Company was established in 1916, and has operated continuously and successfully since that time. It sells approximately $100 million of its output successfully into the international export market.

The Company considers itself an enlightened and forward-thinking employer, and believes that its employee benefit plans, particularly its qualified pension plans, which are available to hourly union, non-union and salaried personnel, are an integral part of its continual success. These plans have been put in place and expanded over the years, largely as a result of the favorable tax treatment afforded to contributions to the trusts that administer these plans, and to the tax exempt nature of the income earned by the trusts. Our employees consider their pension plans, provided by the Company, to be a vital part of their planning for their post working years.

We firmly believe that any legislative attempt to eliminate or change the employer-sponsored qualified employee pension system, so as to reduce its attractiveness as a vehicle to help motivate employees and plan sponsors alike to do their jobs, would be met with extreme dismay.

We urge the Committee to leave the present private employee benefit plan system in place. We believe it serves an extremely useful social and economic purpose in our competitive free enterprise economy here in the United States.

C: Quentin J. Kennedy
John R. Kennedy

STATEMENT OF THE
FEDERATION OF AMERICAN HOSPITALS

SUBMITTED FOR THE HEARING RECORD ON
THE MEDICARE HOSPITAL PROSPECTIVE PAYMENT RATES
PROPOSED FOR FISCAL YEAR 1985

SUBCOMMITTEE ON HEALTH
COMMITTEE ON FINANCE
UNITED STATES SENATE
AUGUST 8, 1984

The Federation of American Hospitals is the national association of investor-owned hospitals representing over 1,100 hospitals with over 135,000 beds. Our member management companies also manage under contract more than 300 hospitals owned by others. Investor-owned hospitals in the United States represent approximately 25 percent of all non-governmental hospitals. In many communities, investor-owned facilities represent the only hospital serving the population.

We appreciate this opportunity to present our views on the adjustments being made by the Secretary of Health and Human Services to the diagnosis related groups (DRG) relative weights for Fiscal Year 1985 under the Medicare prospective payment system.

Our association endorsed the concept of prospective payment for Medicare hospital services more than 15 years ago and we supported the historic change in the Medicare payment system enacted last year. We have always believed that strong economic incentives for increased management efficiency would contain Medicare costs but even the strongest supporters of such change were pleasantly surprised by how quickly these incentives began to work. Hospital costs have been contained over the past year for Medicare and for all other payers as hospitals changed their behavior to hold the line on the growth of employees, reduce length of stay, and with the cooperation of medical staffs, reduce admissions and seek alternatives to hospital care.

Exhibit One tells the story of this dramatic trend which has benefited all who bear the cost of hospital services. The growth in total costs and costs per case is declining dramatically relative to the consumer price index and the hospital market-basket. What makes this performance especially remarkable is that prices themselves have been rising much less rapidly. From the quarter ending February 1982 through the quarter ending February 1984, the rate of increase in total hospital expenses dropped 65 percent, from 17.2 percent to only 5.9 percent (Exhibit One). The rate of increase in expenses per admission dropped by over half from 19 percent to 8.2 percent (Exhibit One). The decline in the growth rate of total hospital expenses and expenses per admission has been much greater than the decline in the consumer price index which over the same period dropped by 40 percent from 7.7 percent to 4.6 percent.

The hospital industry now awaits final regulations for fiscal 1985 Medicare prospective payment, and we are greatly concerned about the fairness of payment increases which according to the law should reflect changes in the hospital market basket of goods and services hospitals must purchase. That market basket increase of 6.4 percent plus 1/4 of 1 percent has been reduced for budget neutrality to 5.6 percent in the proposed regulations. However, we are most concerned about that provision of the proposed regulations which would reduce all DRG weights

by 2.4 percent. This change in weights was not only unanticipated by the nation's hospitals, but could undermine support for this new system's alleged predictability and fairness.

Most institutions have budgeted for actual cost increases of about six percent in fiscal 1985. The government's budget for Medicare expenditures in fiscal 1984 is showing a $2 billion savings from lower than anticipated admissions and other increased efficiencies from the new prospective payment system. If hospitals are penalized when they are performing so much better than anyone predicted, there is bound to be an adverse reaction which could jeopardize this new program.

Predictability of prospective payments is essential for the budgeting process of both government and industry. Fairness of payment levels is also imperative if the industry is to be able to contain Medicare costs without shifting costs to other payers. Those who criticized a Medicare only prospective payment system warned that hospitals would simply raise prices to private payers. Those critics were wrong because they underestimated the impact of Medicare policy on total costs. Hospitals have cut costs because for the first time since Medicare was enacted, Congress offered an economic reward for cost reducing behavior. If the proposed reduction of DRG weights is not deleted in final regulations, the Medicare program will have increased the chance

that some hospitals will resort to price increases as the only way to achieve adequate revenues other than reducing necessary services.

For these reasons, we express our appreciation to the Chairman for scheduling this important hearing and we urge the Committee to help clarify the intent of Congress with regard to the long range importance of assuring fair and predictable payments for hospital services to Medicare beneficiaries.

In the recently issued conference report on the Budget Deficit Reduction Act of 1984, the Congress expressed their concern that proposed fiscal 1985 Medicare prospective payment rates for hospital services be both budget neutral and fair. In part the report urges the Secretary of HHS "to carefully evaluate the potential impact of rates on the long-term success of the prospective payment system."

Attached to this testimony is a copy of our association's comments to the Department of Health and Human Services on the proposed weight reduction. The following points are included in those comments:

1. The Health Care Financing Administration (HCFA) did not test the data to determine whether fiscal 1984 Medicare inpatients were on average older and more severely ill than fiscal 1981 patients. We believe

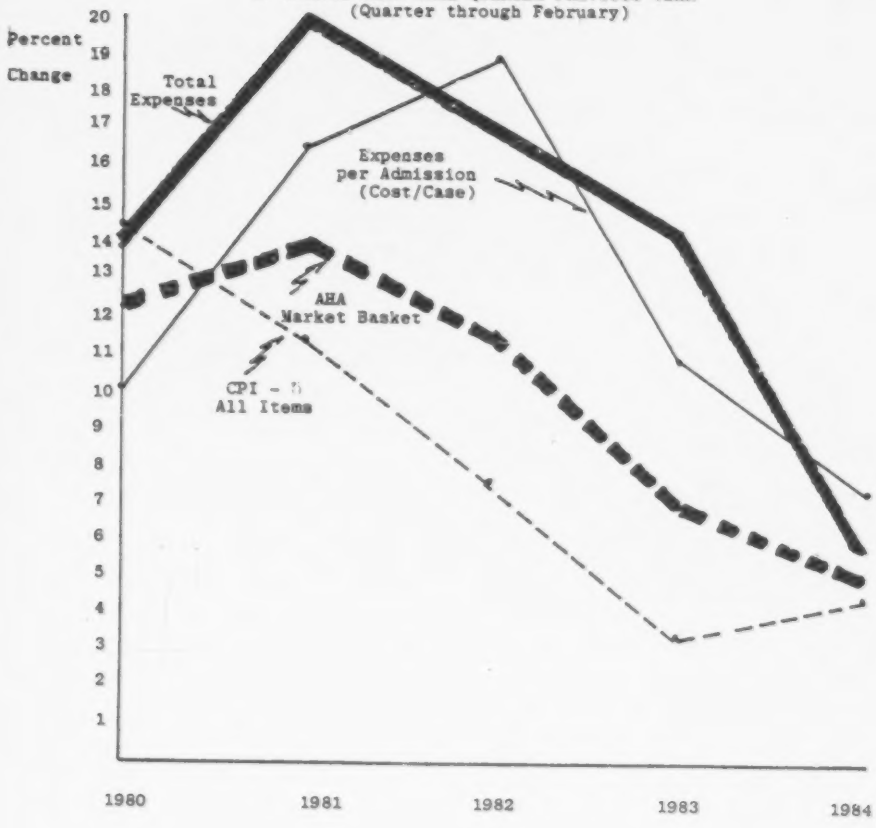
that the trend reflecting treatment of less severely ill patients in outpatient settings indicates a higher average case mix for inpatients rather than simply improved accuracy in coding.

2. The data base of 896,000 fiscal 1984 discharges used by HCFA does not appear to be representative of Medicare cases on a geographic or case-mix basis.
3. The hospital industry has been denied access to the HCFA data bases, methodologies, assumptions, and formulae which produced the DRG weights.
4. The statutory language, in our opinion, precludes application of a budget neutrality adjustment to the DRG weights and also precludes changes in the weights prior to October 1, 1986.

For reasons of fairness and the absence of adequate data, we believe DRG weights should not be changed in fiscal 1985 but should be reviewed with the help of the Prospective Payment Assessment Commission in fiscal 1986 as directed by the statutory language.

EXHIBIT ONE

% CHANGE FROM SAME QUARTER PREVIOUS YEAR
(Quarter through February)



Federation of American Hospitals
Michael D. Bromberg, Esquire, Executive Director

National Offices 1111 19th Street, N.W., Suite 402
Washington, D.C. 20036 Telephone 202/833-3090

July 25, 1984

Carolyne K. Davis, Ph.D., Administrator
Health Care Financing Administration
Post Office Box 26676
Baltimore, MD 21207

Re: BERC-279-Proposed Changes to PPS Regulations and Rates for FY 85, Federal Register, July 3, 1984

Dear Dr. Davis:

The Federation of American Hospitals, representing the investor-owned hospital and health care systems industry, urges you to delete in the final rule the proposed reduction in DRG weights as published in the July 3, 1984 Federal Register. The proposed rule discusses this issue on pages 27442 through 27445 and includes the new proposed weights as Table Five of the document.

We have four basic concerns which we shall discuss in detail:

1. HCFA Assumptions on Patient Mix;
2. Inadequate and Unrepresentative PPS Sample;
3. Inability to Access HCFA Data Base; and
4. Statutory and Congressional Intent.

The Federation strenuously objects to and vigorously opposes an additional reduction of 2.4 percent -- to be factored uniformly in FY 85 on DRG weights -- for the following reasons:

1. HCFA Assumptions on Patient Mix

The explanation of the 5.85 percent reduction factor of which 3.38 percent was incorporated into FY 84 rates indicates that it was based on 896,000 discharges under the prospective payment system through March 1984. Further, that these discharges were matched hospital by hospital and month by month "to compensate for any biases that could have been due to seasonal variations, hospital cost-reporting period distributions and the timeliness of submitting bills." The major flaw in this assumption is that each hospital, each month, in 1981 -- the MEDPAR year -- and in 1984, -- the PPS year -- treated patients with the same characteristics. This assumption was not tested and probably could not be tested unless an expensive, time-consuming, and exhaustive analysis was conducted using medical record source documents, as distinguished from billing and claim form data that was the only documentation used for both the 1981 and 1984 determinations. Our hypothesis is that 1984 patients are on average older and therefore relatively more severely ill. Also, there has been a trend that has been accelerating over the time period in question which reflects movement of less severely ill patients to outpatient treatment settings, leaving the more acutely ill to be treated as inpatients. This aspect alone would be indicative of a higher case mix for all hospitals that would not be accounted for by more accurate coding. Further, the rate of increase in Medicare inpatient admissions has been decelerating for the last three years with a concurrent acceleration of outpatient visits. This also is evidence of this trend.

2. Inadequate and Unrepresentative PPS Sample

As previously mentioned, 896,000 discharges billed under PPS through March 1984 were used as your 1984 data base. According to HCFA Fact Sheet, May 1984, as of March 31, 1984, only 43 percent of all hospitals were operating under PPS. Further, an estimated 4.8 million patients were admitted from October 1, 1983 through February 29, 1984. Therefore, less than a 20-percent sample of discharges were used from only 43 percent of all hospitals. In addition, many of the 57 percent of hospitals not on PPS as of March 31, 1984 are hospitals that treat the most complex cases. At least this assumption can be made from recent

comments by HCFA staff explaining budget neutrality and the HHS News Release of June 18, 1984, discussing the phasing-in of hospital accounting years. To be a representative sample, a data base of discharges from the entire year of 1984 should be used to compare with the 1981 MEDPAR file, which used bills from patients discharged for that entire year. The 9 million bills used from the PSRO data set was a far more valid and representative sample. HCFA staff did not know at the recent PPS briefings the geographical breakdown of the 896,000 discharges which were used as the basis to determine that improved diagnostic coding for the entire hospital industry was creating a 5.85 percent overpayment.

3. Inability to Access HCFA Data Base

Both the Federation of American Hospitals and the American Hospital Association for more than a year have requested formally, and under the Freedom of Information Act as well, copies of and access to the complete data bases, methodologies, assumptions, and formulae that produced the initial DRG weights. In particular, requests for the complete 1981 and 1982 MEDPAR files have been denied on the basis that they contain "information of a confidential nature, the release of which might constitute an unwarranted invasion of personal privacy." You also claim that even if the "patient identifier" were removed, as we asked, to overcome the privacy issue, other information on the tape -- but not further explained to us -- still could compromise privacy. We feel it is patently unfair for the hospital industry to be denied access to aggregate data that in no way would identify any individual nor invade any personal privacy.

The hospital industry has been a willing partner in the establishment of a Medicare prospective payment system. To deny us access so that our own analysts can examine your methodologies, assumptions, and formulae and then compare your findings with ours is an unwarranted obstacle to a fair exchange of data. Even when data are made available, sufficient time must be provided for an in-depth analysis. Time is always on the regulatory side. The proposed rule in question published on July 3, 1984, with a 30-day comment period to August 2, and final rule due on September 1 to be effective October 1, 1984, leaves little or no time available for the hospital industry to obtain data, analyze it, and react.

4. Statutory and Congressional Intent

The Federation questions whether the Secretary of Health and Human Services has the statutory authority to adjust DRG weights in order to maintain budget neutrality and whether the Secretary has statutory authority to recalibrate weights prior to fiscal year 1986. In both instances, the Federation's general counsel, Weissburg & Aronson, concludes that the Secretary does not have such statutory authority.

The statutory procedure for establishing the federal portion of the DRG rate also supports the conclusion that budget neutrality may not be achieved by adjusting the DRG weighting factors. Section 1886(d)(3) sets forth, in order, the various steps involved in establishing the DRG rates for fiscal year 1985. The third step, after updating the standardized amounts and reducing for outliers, is to adjust total payments for budget neutrality. Section 1886(d)(3)(C). The final rate is then determined in a fourth step by combining the adjusted standardized amount and the weighting factors. Section 1886(d)(3)(D). This procedure is mirrored by the regulations. 42 C.F.R. Sections 405.473(c)(4) and (5). The implication from this ordering is that the aggregate amount of payments must be budget neutral before the weighting factor is introduced. Therefore, budget neutrality cannot be created by an adjustment to the DRG weights.

The Medicare Act does not appear to allow the Secretary to adjust DRG weights prior to 1986. Congress, in fact, deleted language from the House and Senate bills which would have allowed such adjustments.

With respect to Congressional intent, conferees on the recently enacted Deficit Reduction Act (P.L. 98-369), in discussing new payment rates urged the Secretary to "carefully evaluate the potential impact of the proposed rates on the long-term success" of the prospective payment system. The conference report further states "The conferees realize that the appropriateness of the new levels of payment will be vital to the success of the full implementation of the prospective payment system." For the Department to undermine a proposed rate increase, which although inadequate can be lived with, by arbitrarily reducing the DRG weights, appears to be not only a violation

of the spirit but of Congressional intent in setting new levels of payment.

In summary, we urge you in the final rule to restore the DRG weights to those applicable for FY 84. We believe that patient case mix has become higher over the last three years because hospitals are treating more severely ill cases as those less acutely ill have been moving to outpatient treatment facilities. We also find the data base of 896,000 cases of PPS discharges on which you base your determinations to be statistically invalid and unrepresentative of the entire hospital industry's Medicare patient population. We further urge you to release to the hospital industry MEDPAR and other data requests so that proper analysis can be made by us. Also, we believe the Secretary does not have the statutory authority at this time to change the DRG weights to achieve budget neutrality. Finally, we believe the proposed DRG weight reductions are not in keeping with the spirit or intent of Congressional conferees on the Budget Reduction Act.

Please note that this is not the complete Federation response to the proposed rule. However, we feel the topic of DRG weight reduction is of such importance that it merits special attention. Our formal response, which covers this topic as well as comments on other aspects of the proposed rule, will be forwarded separately.

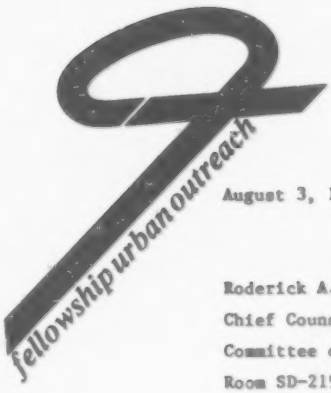
If we can be of further help in clarifying any of our points or in assisting you in any way, please let us know.

Sincerely,

Michael D. Bromberg

Michael D. Bromberg
Executive Director

MDB:clw
cc: Honorable Margaret M. Heckler
Secretary, Health and Human Services



August 3, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Subject: Finance Committee hearings on major tax reform options

Gentlemen,

I commend you for your willingness to tackle the complicated income tax laws that our nation has. While I encourage your efforts, I want to voice a very strong concern that the committee keep in mind the need to encourage the tax incentives for people who donate to non-profit organizations.

If non-profit organizations can't continue to function, a trememdous expense will fall back on the hands of the government. Charitable gifts enable many services to be provided. Please understand that I am not suggesting a position on whether the current laws should be retained or whether a flat tax should be adopted. What I am suggesting is that whatever the decision, the incentives to donors be continued.

Gratefully yours,

Stanley B. Long
President

BOARD OF DIRECTORS
STEPHEN AHLQUIST
Damir & Ahlquist
Attorneys at Law
HENRIETTA COOPER
Homemaker
TERRIE DONELSON
Beauty Consultant
ROSEMARY EDINGTON
Director of Development
Fellowship Urban Outreach
DONALD GREEN
Pastor, S.F. Christian Center
WILLIAM HAUTT
President, Focus Consultants
EDWARD L. HAYES
Executive Director
Mt. Hermon Christian Conference Center
CARL HUDSON
Chairman of the Board
Pastor, Church of Philadelphia
ELNOR JACKSON
Painter, U.S. Government
MICHAEL JONES
Account Executive
Exxon Corporation
STANLEY LONG
President, Fellowship Urban Outreach
VICTOR MEDEARIS
Pastor, Double Rock Baptist Church
W. ROBERT STOVER
President, Western Temporary Services
DORIS TAYLOR
Accounts Payable, I. Magnin & Co.
WAYMER THOMAS
Retired, Naval Supplies
WILLIAM TURNER
Pastor, Community Baptist Church
DESSIE WEBSTER
Founder, Fellowship Bible Institute
DAVID YOUNG
President, Eastwind Printers
ADVISORY BOARD
MAX DE PREE
Chairman, Board of Directors
Herman Miller, Inc. Zeeland MI
WILBUR HAMILTON
Director
S.F. Redevelopment Agency
CLIFFORD WESTBROOK
Retired, Pacific Telephone

Fellowship Urban Outreach Ministries
Fellowship Bible Institute • Fellowship Academy • Fellowship Community Projects
200 Plymouth Avenue San Francisco, CA 94112 (415) 585-6002

STATEMENT OF FIGGIE INTERNATIONAL INC. IN
CONNECTION WITH THE HEARINGS OF THE SENATE
FINANCE SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT ON THE SUBJECT OF
FRINGE BENEFITS JULY 26, 27 AND 30, 1984

We at Figgie International Inc. believe that it is our responsibility as employers to help protect the basic financial security of our employees through a comprehensive benefit package. This package includes medical, dental, disability and retirement benefits for the employee and family and death benefits for the surviving family in the event of the employee's untimely death. These benefits are provided across all levels of employees regardless of age or sex.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic protection of our employees. Further, we are in a position to provide these benefits on a more effective cost basis than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allows us to provide valuable benefits we and our employees can afford. While we are well aware of the continuing problem of rapidly rising health care cost and taking steps to contain these costs, increasing the cost of benefits through changes in the tax law will dramatically compound the problem and will mean that we will not be able to provide the same level of protection in the future.

The tax incentives that have been put into the law have made it possible for employees with the help of their employers to live more comfortable lives both before and after retirement. Without these incentives, only the wealthiest companies will be able to afford benefits for their employees and then it would probably be on a discriminatory basis. Mandating benefits without proper

incentives would only add to the cost of goods and inflation.

History has shown that we cannot and should not rely on the government to provide these services. The past problems of Social Security and the current problems of Medicare magnify this point. More and more of the liabilities of these programs are being passed to employers and employees alike to where they are a significant burden.

We at Figgie International take price in our employee benefit programs especially our retirement programs which are fully funded. Because of the added regulations and liabilities imposed by the Congress and the PBGC, we considered replacing our defined benefit retirement plan with a defined contribution plan and recouping the excess assets.

After careful consideration of the needs of our employees, we elected to continue our defined benefit retirement plan and add a 401(k) defined contribution plan because of the tax incentives offered through such plan.

It seems to us that more, not less incentives are needed thereby reducing the government's liability for such benefits and programs.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars for this purpose.

STATEMENT OF FIRST NATIONAL BANK IN BARTLESVILLE
IN CONNECTION WITH THE HEARINGS OF THE SENATE
FINANCE SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT ON THE SUBJECT
OF FRINGE BENEFITS
JULY 26, 27, AND 30, 1984

We at First National Bank in Bartlesville believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees:

1. Thrift Plan - Voluntary participation. Employee may contribute up to 5% of their salary which is matched 100% by the Bank.
2. Retirement Plan - Covers every employee over 30 years of age at beginning of employment; 25 to 30 years of age are covered after one year of employment, and 25 and under after two years of employment.
3. Medical and Dental Insurance - Covers all employees and qualified dependents, fully paid by the Bank.
4. All employees are covered by Life Insurance two times their annual salary fully paid by the Bank.
5. Sickness and Disability Benefits - Three days sick leave are awarded to all employees on date of employment and each employee accrues ½ day of sick leave for each month of employment thereafter to a maximum of 60 days. Disability leave is provided when necessary and employee is retained on all medical benefits.

The above benefits cover all bank employees including 155 women, 23 American Indians, 5 Blacks, and 1 Hispanic. It also covers 163 non-management employees out of a total of 208.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allows us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we must pay, we are vitally interested in cost containment. We are constantly studying this problem and evaluating proposed solutions. We have recently entered into a new plan with Travelers Insurance called Modified Minimum Premium which allows us to retain our premium payments in our own interest-bearing account and deposit the minimum amount for claims in the Travelers account for payment of claims. This will result in substantial savings to the Bank and ultimately to our employees.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make know our views on the importance of employee benefits. We believe that

encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Company Name First National Bank

☒ All Employees # 205
☐ Salaried Only #

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	1,307,548.81	6,378.29
Legally-Required Employer Payments		
Social Security	217,052.64	1,058.79
Unemployment Compensation	11,950.00	58.29
Workers' Compensation	6,675.96	32.57
Other Payments	0	0
Discretionary Taxable Benefits		
Time Not Worked	555,550.64	2,710.00
Rest Periods	0	0
Other Taxable Benefits	0	0
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	196,683.00	959.43
Capital Accumulation Plans	0	0
Disability Plans	0	0
Group Health and Life Insurance	203,567.57	1,002.23
Active Workers	201,767.57	984.23
Retirees	1,800.00	18.00
Other Tax-Favored Benefits	116,069.00	936.04

Company Name First National Bank

☒ All Employees # 205
☐ Salaried Only # _____

TABLE 2

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaried	Employer Payments as Percent of all Benefits
Total Benefits	35	100
Legally-Required Employer Payments		
Social Security	6.7	100
Unemployment Compensation	.1	100
Workers' Compensation	.18	100
Other Payments	0	0
Discretionary Taxable Benefits		
Time Not Worked	15	100
Rest Periods	0	0
Other Taxable Benefits	0	0
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	5.3	100
Capital Accumulation Plans	0	0
Disability Plans	0	0
Group Health and Life Insurance	5.5	100
Active Workers	5.4	100
Retirees	3.7	2.6
Other Tax-Favored Benefits	3.1	100

Company Name First National Bank

/x/ All Employees # 205
/ / Salaried Only # _____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 1983

	Defined Benefit				Employer Capital Accumulation				401(k)			
	Participate		Vested		Participate		Vested		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	15	.08	1	.02	___	___	___	___	___	___	___	___
10,000- 19,999	126	.68	22	.48	___	___	___	___	___	___	___	___
20,000- 49,999	38	.20	17	.37	___	___	___	___	___	___	___	___
50,000- 99,999	6	.03	4	.09	___	___	___	___	___	___	___	___
100,000 or more	2	.01	2	.04	___	___	___	___	___	___	___	___
Total	187	100%	46	100%	___	100%	___	100%	___	100%	___	100%

671

Company Name First National Bank

[X] All Employees # 205
[ ] Salaried Only # ____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1983

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999	15	.07				
10,000- 19,999	144	.70				
20,000- 49,999	38	.19				
50,000- 99,999	6	.03				
100,000 or more	2	.01				
Total	205	100%		100%		100%

Company Name First National Bank

☐ All Employees # _____
☐ Salaried Only # _____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# 14	$ 86,391.07	1983
Defined Benefit Plan Retirees Survivors in Pay Status	# 1	$ 7,310.17	1983
Defined Benefit Plan Vested Separated	# 2	$ 25,737.74	1983
Capital Accumulation Plan Retirement Age Distributions	# 0	$ 0	1983
Capital Accumulation Plan Termination Distributions	# 0	$ 0	1983
Retiree Health	# 9	$ 1,800.00	1983
Retiree Life	# 0	$ 0	1983
Retiree Other	# 0	$ 0	1983

Fitness Management Corp.
6780 ROSWELL ROAD
ATLANTA, GEORGIA 30328
404-396-1110

July 24, 1984

Mr. Roderrick A. DeArment
Chief Council
Committee on Finance
Dirksen Senate Office Bldg., Room SD-219
Washington, D.C. 20510

Dear Mr. DeArment:

I would like to take this opportunity to comment on the subject of taxation of employee benefits that will be the subject of public hearings on July 26, 27 and 30th, 1984. My comments represent those of the businessman from a small to medium size corporation.

Our companies' employee benefit plan, which happens to be underwritten by Pilot Life Insurance Co., after a preliminary waiting period is open to all employees. Benefits of our plan do not principally go to the highest paid employees; but are rather equally distributed to all employees at the various levels of income throughout the company. We believe that our employees will definitely suffer if employer-sponsored benefit plans do not exist. We further believe very definitely that employee benefits are essential to the economic security of our employees and their dependents.

We believe that private enterprise has built an effective and efficient arrangement covering the needs of the employees through the employee benefit system. It is far superior to any government program which might replace it. The private employee benefit system should not be systematically dismantled in the name of greater tax revenue. The employee needs are there and they must be met.

If private enterprise is not encouraged to meet these needs then government must. We believe that the ultimate cost of government intervention into the private enterprise area will be greater to the nation.

Very truly yours,

Ernest McCracken
Controller

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Karen W. Fitzgerald, P.S.C.

The private employee benefit system needs and deserves the tax incentives which currently apply. As a physician I have sufficient income to enable me to participate in IRA's and contribute the maximum amount under the law to the Social Security program, although I will only receive a fraction of my contribution to Social Security when I retire and am eligible for benefits.

The tax incentives currently in the law make private employee benefit programs very attractive to young professionals such as myself. Since I am "biting the bullet" to maintain the Social Security system, why should I be penalized for the long hours and hard work that I have invested which enable me to participate in a private employee benefit plan?

1984 AUG 13 PM 4:58

Florida Power
CORPORATION

August 9, 1984

The Honorable Bob Packwood
Senate Russell Building, Room 259
Washington, D.C. 20510

Re: **TAXATION OF EMPLOYEE BENEFIT**

Dear Honorable Packwood:

Employee benefit plans are the most efficient and cost effective way for corporation to offer economic security to employees. The major plans such as retirement, life insurance and medical plans, benefit employees at all wage and salary classifications, not just the highly compensated senior executives. Preferential tax treatment for these benefit plans has encouraged their growth and is a smart investment in the future economic security of our country.

A number of proposals to reduce the favorable tax treatment of employee benefits are anticipated in 1985. The considered tax preferences range from restrictive limits on pension benefits to prohibition of IRA deposits for employees who are vested in their employer's pension plan.

If the tax policy ceased to encourage employee benefits additional strain would inevitably be placed on public institutions and programs ranging from community hospitals through the Social Security retirement system. I believe Congressional tax policy should continue to promote employee benefits, not consider them as just a source of revenue.

I strongly support the employee benefit plan and urge you to support the Packwood hearing, also.

Thank you for your help in this matter.

Sincerely,

Kim Bahlke

Kim L. Bahlke
Benefits Specialist

KLB/nav

FOODCRAFT EQUIPMENT CO.

• HOTEL • RESTAURANT FIXTURES & SUPPLIES •

• PLANNING DESIGNING & INSTALLATION •

599 S. STRATFORD ROAD • PHONE 919/788-7520 • WINSTON-SALEM, N.C. 27103-1878

July 27, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

RE: Taxation on Employee Benefits
Hearing Dates July 26, 27, 30, 1984

Dear Mr. DeArment:

This letter is written to address our own employee fringe benefit plans.

I do not want to address the taxation of specific types of benefits or specific delivery systems, neither do I think it is appropriate at this time. It is my understanding that the primary purpose of the hearings, scheduled on the above dates, it to build a record of positive statements regarding the social value of employee benefits.

The fringe benefits offered to our employees have the following characteristics:

1. Benefits do not principally go to the highly paid employees.
2. Benefits are offered to female and male employees without discrimination.
3. Our pension plan does not fail to adjust for inflation.

If employer-sponsored benefits do not exist the employee will suffer. Further, the employee benefits that we offer, are essential to the economic security of our employees, retirees, and their dependents.

In closing, I would like to offer this statement of opinion. Private enterprise has build an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet these needs, government must. And we believe the ultimate price to our nation will be greater.

Thank you for including our comments in your hearings on this subject.

Very truly yours,

FOODCRAFT EQUIPMENT COMPANY, INC.

Jack Kroustalis
President

JK/ars

cc: Senator Jesse Helms
Senator John East
Governor James Hunt
Congressman Stephen L. Neal
Congressman William G. Hefner

FORD CONSTRUCTION COMPANY
GENERAL CONTRACTORS
DYERSBURG, TENNESSEE 38024
P. O. BOX 597
901 285-6186

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, D. C. 20510

Re: Taxation of Employee Benefits
Hearing: July 26, 27, 30, 1984

Dear Sir:

With reference to the above hearing, a sound employee-sponsored fringe benefit program is essential to the sound and economic security of employees and their dependents.

The employee needs are there and must be met. Private enterprise has established an effective and efficient arrangement to meet these needs and should be encouraged to provide such benefits; otherwise, the government must.

Our system is far superior to any government program which would replace it. It should not by systematically dismantled in the name of greater tax revenues. Should this happen, we believe the ultimate price to our nation would be much larger.

Benefits provided by our Company cover all full-time employees, regardless of sex, race, job responsibility or salary.

Yours very truly,

FORD CONSTRUCTION COMPANY

Nancy Craig

Nancy Craig

NC/ct

FOSTER, LEWIS, LANGLEY, GARDNER & BANACK
INCORPORATED
ATTORNEYS AT LAW
SIXTEENTH FLOOR
FROST BANK TOWER
SAN ANTONIO, TEXAS 78205

(512) 226-3116

RALPH LANGLEY
PAT H. GARDNER
A. J. LEWIS, JR.
EMERSON BANACK, JR.
CHARLES R. ROBERTS
EDWARD KLIEWER III
RICHARD L. KERR
WILLIAM T. ARMSTRONG III
JOSEPH W. RUSSELL
JAMES E. WILLINGHAM, JR.
KENNETH L. MALONE
RONALD B. KING
ROBERT RUSSO
A. J. LEWIS III
SCOTT E. BREEN
KAREN M. VAUGHAN
JOHN B. STEWART
HARRY W. WOLFF, JR.
RICHARD D. BLAU*
RANDALL H. ERBEN
MICHAEL R. GARATONI
WILLIAM G. SHOWN
ROSEMARY L. HOLLAN
JAMES K. LOWRY, JR.

*ADMITTED TO PRACTICE IN ARIZONA ONLY

BEN F. FOSTER (RETIRED)
A. J. LEWIS (1900-1984)

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
United States Senate
Dirkson Senate Office Building - Room SD-219
Washington, D. C. 20510

Re: Hearing on Taxation of Employee Benefits
July 26, 27, and 30, 1984

Dear Mr. DeArment:

I am writing this letter for inclusion in the printed record of the Hearing on Taxation of Employee Benefits to be conducted by Senator Robert Packwood, Chairman of the Senate Finance Subcommittee on Taxation and Debt Management, on July 26, 17, and 30, 1984. This letter is being written not only from my experience with this law firm, but also as an attorney and counselor for many clients during almost thirty (30) years of the practice of business law.

The fundamental concept is whether employee benefits and welfare programs can better be provided by the private sector or by government. If we are to learn from history, I believe the answer is clear -- business has, is and will continue to provide better benefits at a lesser cost. Certainly government shares in the costs of these employer sponsored plans through

tax incentives, as it well should, but the costs are far less than if the plans were fully funded and administered by government.

Employee fringe benefits are as important to most employees as direct compensation itself. Employer sponsored pension plans, group life, disability and medical plans are not only of immeasurable benefit to employees and their families, but also reduce the need for government sponsored welfare payments which would be needed in the absence of these plans. Our law firm just lost a good secretary to another law firm because it offers dental insurance and our law firm does not, and she needed to have $8,000.00 worth of dental work done. Our firm has a lunch room where free coffee, cokes, etc., are provided as well as a place to eat lunch. Our firm believes this benefit is greatly appreciated by our employees while at the same time benefiting the firm by keeping the employees in the office.

Employers are creative and responsive to the needs of employees. Many of the employee benefit plans that are common today were unheard of ten and certainly twenty years ago.

I firmly believe that Congress should do everything in its power to encourage employer-sponsored employee benefit plans to the maximum extent possible, including preserving the income tax incentives to the employer.

Respectfully,

A. J. LEWIS, JR.

AJLJr/csb

FOX JACOBS

1984 AUG -6 PM 12:47

August 3, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D.C. 20510

Dear Senator Packwood:

You, as a member of the Senate Finance Committee, will have an influential role in determining what happens to the economic security and well being of millions of American workers. To raise additional taxes, you likely will be looking at reducing the tax incentives available to employers who provide welfare and retirement benefits for their employees. Such action would likely create a demand for more governmental programs, the cost of which could more than offset the tax revenues generated. We are opposed to such action and wish to help you understand why.

Our company, Fox & Jacobs, Inc., employs over 1700 people in five states. We provide medical, disability, retirement, educational and other benefits for our employees and we are of the opinion that the private benefit system provides the best social programs in the country in a very efficient way to a wide range of people. We urge you to do everything you can to strengthen the system and to avoid doing anything which would weaken it.

You will likely be seeing a lot of quantitative data from many sources as you study the issues. Rather than provide you additional statistics, we would like to make our point with some examples of experiences of some of our employees.

Our group health plan is provided at no charge to employees. Dependent care is available with the employee paying a portion of the premiums. The importance of this plan was noted recently on the medical claims for an employee's dependent. The dependent, a premature baby, incurred over $100,000 in claims in a two-month period. These claims amounted to over five times the annual salary of the employee. Had it not been for our group health plan, this medical care would probably have been provided at no cost by some institution or agency and the ultimate cost would have been borne by society or the taxpayer.

Our disability programs provide partial income protection when an employee cannot work due to personal (non-work related) illness or injury. Through these programs the employee can usually meet his most critical financial obligations and not be faced with foreclosures and property repossessions.

Our educational assistance program provides partial tuition reimbursement for our employees. This allows and encourages our employees to continue their education and to broaden their opportunities for advancement. A good example of the importance of educational assistance is reflected in the case of one of our carpenters becoming permanently disabled from his usual and customary job duties. Through educational assistance, he was able to go back to school and become qualified in the area of computer operations, once again becoming a productive employee.

Our company management and our employees have become increasingly concerned about employee retirement benefits. We provide a profit sharing/retirement plan for all employees. We also encourage our employees to make provisions for their retirement through a 401(K) plan. These plans are financially sound and are intended to supplement Social Security.

These programs are solid programs which contribute to the economic welfare of our employees and our country. They provide our employees a sense of security in which they have confidence about their future. Our programs are only a sample of the many in industry which are working. Since they are working, we urge you to let them continue to do so. They should not be altered in order to raise tax revenues. We have a sincere interest in getting this message across to those of you with a special responsibility for tax matters. We want to help you understand how changes in the taxation of employee benefits will affect the well being and economic security of millions of American workers.

Thank you for your time and interest.

Sincerely,

Dan T. Amis
Vice President

DTA:rb

FOWLER, WHITE, GILLEN, BOGGS, VILLAREAL AND BANKER, P. A.

ATTORNEYS AT LAW

501 EAST KENNEDY BOULEVARD
SUITE 1700
TAMPA, FLORIDA 33602
(813) 228-7411

501 FLORIDA NATIONAL BANK BUILDING
ST. PETERSBURG, FLORIDA 33701
(813) 898-0801

1922 VICTORIA AVENUE
FORT MYERS, FLORIDA 33902
(813) 334-7892

CABLE ADDRESS
"FOWHITE"
TELEX 52776
TELECOPIER (813) 228-6311

1525 SOUTH FLORIDA AVENUE
SUITE 4
LAKELAND, FLORIDA 33803
(813) 688-8517

900 BANK OF CLEARWATER BUILDING
CLEARWATER, FLORIDA 33515
(813) 446-8325

600 LEWIS STATE BANK BUILDING
TALLAHASSEE, FLORIDA 32302
(904) 681-0411

PLEASE REPLY TO:
P. O. BOX 1438
TAMPA, FLORIDA 33601

August 9, 1984

CODY FOWLER 1892-1978

MORRIS E. WHITE
WILLIAM A. GILLEN
E. JACKSON BOGGS
DEWEY R. VILLAREAL, JR.
JAMES E. THOMPSON
ROBERT E. BANKER
BRENDAN P. O'SULLIVAN
DONALD V. BULLEIT
J. CLINT BROWN
JAMES W. HAGAN
WILLIAM L. JOHNSON
W. DONALD COX
EDWARD M. WALLER, JR.
FRANK A. MAY
THOMAS N. HENDERSON, III
FREDERICK M. ROTHENBERG
JAMES B. THOMPSON
JAMES C. HADAWAY
LOUIS J. WILLIAMS
HUGH NILSEN SMITH
RICHARD G. DAVIS
DAVID C. SHOBE
BRIAN C. ELLIS
JAMES N. MCNEIL
PAUL R. PIZZO
F. WOODRON COLEMAN
JOHN D. MCQUIGG
JAMES J. CISBACK

A. EDWARD MCGINTY
THOMAS T. STEELE
WILLIAM T. ATCHLEY, JR.
GARY W. MARTIN
R. CLARK ROBINSON
DALE W. WASH
JOHN M. STIPANOVICH
CHRIS W. ALTENBERND
A. WOODSON (BOH, JR.
DAVID L. BRESLER
DONALD GUY GREIWE
JONATHAN L. ALPERT
WILLIAM E. POWERS, JR.
J. BOB HUMPHRIES
SAMUEL B. DOLCIMASCOLO
THOMAS J. ELLWANGER
SIDNEY M. CRAWFORD
FRANK H. GABBLER
MARK E. HUNGATE
JAMES L. YACAVONE, III
JOSEPH R. LOPEZ
JAMES F. PINGEL, JR.
DIANA L. FULLER
ANDREW J. LUBRANO
CARL R. NELSON
JOHN P. HIGGINS
JOHN W. ROBINSON III

JOSHUA M. MORSE*
OF COUNSEL

GEORGE F. DURES, JR.
ALLEN R. VON SPIEGELFELD
JOHN L. HOLCOMB
THOMAS E. FOTOPULOS
JOHN A. KALNTEMAN
RHEA F. LAW
R. WILLIAM PUTCH
MARTIN L. GARCIA
JAMES R. BETTS
CHARLES W. HALL
J. GREGORY NUMPHREES
MICHAEL J. CHUTZ
R. ALAN HIGBEE
JAMES T. BURT, II

JACALYN N. KOLB
JOHN S. WATTS, III
STEPHEN E. HOOPER
WALLACE C. VON ARX, III
PAMELA A. KERR
ALTON C. WARD
WILLIAM F. RUTGER
THOMAS R. BOHN
CATHERINE C. PRATS
JACOB J. MUNCH
THOMAS P. SCARRITT
NATHAN D. GOLDMAN
GEORGE A. VANA
G. DONOVAN CONWELL

*NOT ADMITTED IN FLORIDA

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Ralph F. Bline for

Frederick M. Rothenberg

FMR:ljb
Enclosure

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Frederick M. Rothenberg, Esquire

As an attorney who has practiced extensively in the private pension area of law for the past fifteen years with a clientele that presently maintains approximately eight hundred qualified pension plans, I am concerned, based upon recent legislation and what I read and hear about the general disposition of the Congress toward the private pension system, that the Congress does not fully appreciate the role that tax incentives play in the decision by small and medium size employers whether or not to maintain private pension plans for their employees.

Based upon my years of experience with clients who have confronted the question of whether or not to implement a private pension plan, it is my opinion that tax incentives; namely, the immediate deductibility of contributions to qualified plans, the tax-free accumulation of income within such plans, and the special tax treatment of distributions from such plans, are the major determinative factors in an affirmative decision. My clientele is generally comprised of professionals and small to medium size businesses. Of the businesses, many are low profit margin operations, and any retirement program must be carefully evaluated for cost effectiveness as compared with other uses of funds for maintenance and growth of the business. Therefore, only the economic impact resulting from qualified pension plan tax incentives counts in making the difficult decision as to where to allocate limited funds, and any further reduction in said tax incentives can only result in fewer of such businesses electing to adopt qualified plans.

Among the professional clients, the majority are well provided with income for their retirement years through investment programs aside from any private pension plans. For them, the decision whether or not to adopt a qualified pension plan turns on the most tax effective investment of their money. Thus, as private pension plans become less desirable from a tax standpoint, these professionals will simply put their money elsewhere, either in other tax sheltered investments or speculative, exciting investments that they could not make under the fiduciary restrictions imposed on pension trusts.

My ultimate concern is that as fewer of these employers elect to adopt private pension plans, the substantial number of rank and file employees who would potentially be covered under such plans will be left without any source of retirement income other than Social Security, the future of which is subject of much doubt. Although it can be argued that such individuals can always open their own IRA's, the realities of human nature and budgeting lead me to believe that a large number would not voluntarily set aside the funds. Thus, only by continuing to make these rank and file people a required part of a pension program which tax incentives make desirable for employers can we hope to see that the retirement income needs of employees of small employers are adequately provided for.

The France Stone Company
P.O. Box 1928 Toledo, Ohio 43603
(419) 241-4101

1984 AUG -7 AM 10: 09

Clair F. Martig
Chairman of the Board
Chief Executive Officer

August 1, 1984

The Honorable Robert Packwood
Senate Russell Building
Room 259
Washington, D. C. 20510

Dear Senator Packwood:

I would like to express to you my personal concern about the current tax environment for employee benefits.

Over the years, employers in this country have been responsible for a tremendous increase in the personal security enjoyed by American workers and their dependents. Voluntarily created employer-sponsored life, health, and disability insurance, pension plans, and other benefits cover the vast majority of employees. These programs have been encouraged by favorable federal tax treatment and have, in turn, saved the federal government substantial sums which would otherwise have been necessary to fund and operate government welfare programs.

As the Senate Finance Committee assesses the current tax environment for fringe benefits, I think it is important to keep in mind that employee benefit plans are the most efficient and cost-effective way the market has devised for delivery of economic security to employees. This economic security extends to employees at all wage and salary levels and is a critical part of their financial well being.

Preferential tax treatment for these plans have encouraged their growth and is a wise investment in the future economic security of our nation. If tax policy ceased to encourage employee benefits, additional strain would inevitably be placed on public institutions and programs, ranging from community hospitals through the Social Security Retirement and Disability Income System.

Congressional tax policy should continue to foster employee benefits and not regard them as simply an untapped source of revenue.

Sincerely,

Clair F. Martig

CFM:v

LAW OFFICES
Franklin and King, P.S.C.
23RD FLOOR FIRST NATIONAL TOWER
LOUISVILLE, KENTUCKY 40202

LARRY B. FRANKLIN
NICHOLAS N. KING
MICHAEL R. HANCE

PHONE 582 2270
AREA CODE 502
OF COUNSEL
EDWARD A. STONE

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, we are submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you very much for your help in this matter.

Very truly yours,

Nicholas King

NICHOLAS N. KING

NNK/bh

Enclosures

SUBMITTED AS PART OF THE RECORD OF THE HEARING
ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30
BY THE UNITED STATES FINANCE COMMITTEE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

BY: FRANKLIN & KING, PSC
2356 First National Towers
Louisville, Kentucky 40202

As the plan sponsor of an employer-funded pension plan, the private employee benefit plan system provides a useful and workable solution to the problem of providing sufficient retirement income for private sector employees. Such employee benefit plans established by private employers provide a necessary supplement to the social workers. If the tax incentives currently supporting the private plan system, a system already beset by staggering plan establishment and maintenance costs, were to be eliminated, the result would most certainly be a sharp decline in the number of employer-sponsored plans.

Currently, the establishment of an employee benefit plan by a small business is a particularly expensive procedure. The elimination of the remaining tax incentives would put such plans out of the reach of most small businesses. Obviously, those lower income employees of such small businesses, who are the least likely to have accumulated sufficient personal savings and who most need the supplemental retirement income, would suffer the greatest hardship.

While recognizing that there are problems within the private plan system, the elimination of the current tax incentives supporting the system would simply result in the stagnation of pension plan growth and the ultimate demise of the system, rather than refinement and improvement of the system. The governmental objective should be to provide additional incentives to encourage expansion of the private plan system to the traditionally low pension coverage industries, such as trades and services. Rather than contributing to the end of an already heavily-regulated plan system, steps should be taken to ensure that the private plan system and the benefits it provides for private sector employees be perserved.

Guy R. James
Treasurer and Counsel

August 9, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Gentlemen:

I wish this letter to be included in the printed record of the hearing on the changes to the imputed interest rules of Code Section 483 and New Code Section 1274.

The changes made to the "imputed interest rules" of Section 483 by the enactment of Section 1274, at least in the area of the sale of real property, has created a wholly unnecessary and unmanageable complicity to an area of the tax law that was already too complicated to be understood by any taxpayer other than CPA's. In my experience, the average attorney, let alone the average taxpayer, could not understand the present value discounting rules of Section 483. Now you have added a further complication that will certainly eliminate almost all of the Internal Revenue Service Agents from being able to understand and audit compliance with the law. Section 1274 is TOO COMPLICATED to be understood by all except mathematicians and CPA's.

In real estate transactions, I would suggest there will be little compliance with the law unless both the purchaser and the seller have CPA's prepare their income tax returns. Furthermore, the IRS will not be able to monitor compliance because the vast majority of Internal Revenue Agents will not be able to understand the "present value computations" of Section 1274.

One Park Central 1515 Arapahoe Street Denver, Colorado 80202 303-292-3700

To tie the interest rates on a seller carryback of real property to 120% of the interest rate charged on federal treasury instruments, thereby making the interest rate greater than that charged by commercial lenders, fails to recognize several significant economic differences between sellers of real property who "carryback" financing on the one hand and commercial lenders on the other hand.

(1) The commercial lender has a fully operating business staffed by several employees and involving a significant capital investment. The commercial lender has to charge two to three interest points above its cost of money to cover its cost of doing business, a return on its capital and a profit amount. The individual seller does not have such costs and in most real property transactions the seller of real property will carryback financing two to three interest points below commercial market rates because he has no cost of doing business.

(2) Secondly, the interest rate that a seller receives on a carryback is generally equivalent to what such seller would receive from an investment in a fixed income investment, such as treasury notes, corporate bonds and bank savings accounts. Today a commercial lender on a loan secured by real property is commanding a 13-3/4% to 14% rate. The current interest rate being paid on money market accounts is about 10-1/2%. On the other hand, 120% of the current short-term T-Note yield would be approximately 14.7%. Under Section 1274 the law requires the seller to report an interest income forty percent greater than what such seller would receive from available alternative investments.

(3) When the seller carrys back financing, the debt instrument owned by the seller is secured by a lien on the property sold. In almost all cases the seller has "first rate security" for the payment of his loan. The greater the security the lower the interest rate should be. On the other hand, if a person is willing to risk his capital, such as in the purchase of a corporate bond, then the interest rate should be

higher. The upper interest rate level under Section 1274 should be equal to the treasury note yields, not 120% of such yields.

In enacting Section 1274 the economics of real property transactions were not adequately understood. In many real estate transactions the time period between the parties entering into an Agreement for Sale and the actual closing of the transaction (i.e. the transfer of title and payment) can be many months to even years. For example, in a raw land transaction the closing may be contingent upon rezoning or platting and because of the governmental process, may be upwards of two years time span between the contract date and the closing date. Frequently, in a lease transaction, the lessee may be granted the option to purchase the property five or ten years later. All of the terms of the Purchase Agreement must be provided for in the lease/option agreement. In most real property transactions, the time difference between contractual agreement and closing is from 60 days to 180 days. In all of the above examples, because of the time lag, a contract could be entered into complying with the complicated rules of Section 1274 and prior to closing, the interest rates could change causing the transaction at closing to no longer comply with Section 1274. Congress has created an intolerable situation for real property transactions in that people who are entering into contractual agreements will have no way of determining the tax consequences of such transactions at the time of signing such Real Property Purchase and Sale Agreements. One of the very basic tenants of tax law has been that it should be clear, understandable, and taxpayers should be able to measure the tax consequence of their acts at the time they are entering into agreements. This can not be accomplished in a real estate transaction under Section 1274.

Under the old rules of Section 483, a taxpayer could calculate the tax consequences of his acts. Under the new Section 1274, very few taxpayers, and even fewer IRS agents, would be able to calculate the tax results of a transaction. Furthermore, a reasonable rate of interest should be the measuring device, not a rate of interest that is in excess of a rate of interest charged by the most expensive of commercial real property lenders.

To force the parties to a real estate transaction to charge a rate of interest greater than treasury rates or commercial lending rates is a highly inflationary measure. Such a law is counterproductive to Congress' intent to reduce inflation. Its primary impact will be to increase the cost of living and commercial properties. What this country doesn't need is high priced housing.

If Section 1274 cannot be repealed, then the testing rate should be reduced to 80% of an appropriate treasury note yield and the top rate should be equal to the appropriate treasury note yield. Furthermore, the rate should be the applicable rate at the date the contract is entered into, not the date of closing of the real estate transaction.

To change the rates would not have any appreciable effect on government revenues. Under Sections 483 and 1274, to the extent the seller's interest income is increased, the buyer's interest deduction is also increased resulting in offsetting each other. In other words, for each dollar of additional interest income there would be a matching dollar of interest deduction.

Very truly yours,

Guy R. James

Guy R. James

HOWARD L. FULTZ, D.D.S., M.S., P.S.
ORTHODONTICS

BELLEVUE MEDICAL-DENTAL CENTER
SUITE C-6
1028 112TH AVENUE NORTHEAST

BELLEVUE, WASHINGTON 98004
PHONE GL 4-4100

August 7, 1984

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Sub Committee on Taxation and Debt Management.

By Howard L. Fultz of Howard L Fultz, D. D. S., M. S., P. S.

It seems difficult to believe that there are discussions on eliminating the private sector qualified pension and profit sharing retirement plans.

The Social Security Retirement Plan is proving to be inadequate to meet the needs of retiring people without another source of income, while at the same time the social security tax becomes more and more burdensome.

It is true that highly paid employees will accrue larger benefits simply because they receive more compensation. However, the percentage of their benefits relates to the percentage of benefits accrued by lower-paid employees, and a percentage of something is certainly more valuable than a percentage of nothing. Without the tax incentive the private sector will most likely close their qualified plans, take larger bonuses, and leave the lower-paid employee with no benefits. This will most likely be true of my own case. I simply cannot afford the costs of contributions and administration of plans that do not have tax incentive.

Another fact to take into consideration is that capital generated by private plans affects every facet of American business. Withdrawal of these funds would have an adverse effect upon the economy of our country.

Steps should be taken to preserve and strengthen the private retirement plans rather than imposing more regulations, restrictions, and penalties.

Mr. Rodrick A. De Arment
Chief Counsel
Committee on Finance
Room 5D-219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

August 2, 1984

Dear Mr. D Arment:

The present law allowing a tax deduction for employee benefits is a good one. I'm sure you're aware of the high cost of health care, upwards of $200 a month for premium. If the entire cost must be paid by the employer or employee, surely there are those who will be forced by economic reality, to go without.

The company I work for has 30,000 employee's all of which have identical health benefits. No one is discriminated against. This is different from the tax system as a whole, where the wealthy and big business can often go untaxed. They therefore benefit from the system more than the middle class person such as myself.

I am all for fiscal responsibility but not based on taxation of benefits. This is the one area of tax deduction which does the most good for most Americans. I am not a special interest group asking for special treatment, I'm one of millions asking for fairness.

Sincerely,

Stephen T. Garcia

GARDINIER INC.

Post Office Box 3269 • Tampa, Florida 33601 • Telephone 813-877-9111 • TWX 810-876-0648 • Telex 52666 • Cable - Gardinc

H. GRAY GORDON
VICE PRESIDENT
INDUSTRIAL RELATIONS

August 6, 1984

SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

SUBJECT: Statement For Inclusion in Hearing Record Regarding Taxation of Employer Paid Fringe Benefits

Gardinier Incorporated employs approximately Eleven Hundred and Fifty (1150) people and does offer a complete madical package, retirement plan, vacation, savings plan, and other fringe benefits to its employees. Fringe benefits such as group insurance and retirement are not affordable by the majority of these employees unless they are paid for by the Company.

Medical benefits cost our company approximately $200 per month per employee, and pension plan benefits are an additional $200 per month per employee. In total, our fringe benefit package expense ranges from 35% to 43% in addition to the employee's base salary. As a group, lower paid employees cost the Company more in fringe benefits than do higher paid employees. This is true because of the fact that they utilize the medical insurance to a greater extent and do depend strongly upon the retirement plan for their future security.

If fringe benefits paid by the Company became taxable to employees, many employees would have to drop their benefits because they could not affort the additional taxes without having additional income. Secondly, if the employee elected additional income rather than the benefits, the vast majority of employees would not purchase insurance or a pension plan. They would spend the additional income on every-day living and would eventually become an additional burden on the current Social Security and Medicare systems. Currently private industry is paying the cost for the majority of medical and retirement plans which will be the backbone for future retiree's financial stability. Current tax laws allow and encourage private industries to provide these non-taxable benefits. If these laws were changed so that the benefits were taxable, the majority of employees would simply cease to have these programs.

In summary, by having a non-taxable benefit both the employer and employee are encouraged to participate in these benefits and this in turn supports the entire economic fabric of the American working family. We strongly and urgently request that our current tax laws regarding benefits such as retirement and group insurance not be changed.

Respectfully submitted,

H. Gray Gordon

sk

GAST MANUFACTURING CORPORATION
P.O. BOX 97 BENTON HARBOR, MICHIGAN 49022
CORPORATE OFFICES: 2300 HIGHWAY M-139
Cable: "GASTCO" PHONE 926-6171
Telex: 729-416

1984 AUG -9 AM 10:18

August 7, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, DC 20510

Dear Senator Packwood:

In regard to the hearings on fringe benefits of the Subcommittee on Taxation and Debt Management, I wish to make several comments.

1. Employee benefit plans are an efficient means of providing retirement security, dependent security (life and disability insurance), and adequate medical care.

2. Without these plans, the Government would be forced to provide for many more of our citizens. We certainly don't want more people dependent on the Government.

3. Without tax advantages to these plans, and without some degree of "discrimination", many of these plans would not exist. Don't be misled into thinking of employees as part of a large union-represented organization. The bulk of our nation's employment is in small business.

4. Limits on "discrimination" must be easily determined and must not eliminate all "discrimination". They are largely applicable to small business without sophisticated tax staffs. If you make them too stringent or too complicated, you will simply "kill the golden goose".

Thank you for this opportunity to express my views.

Very truly yours,

Allan J. Westmaas

Allan J. Westmaas
Vice President & Treasurer

AJW:df

GATEWAY Realty

767 PORTER ROAD • PORTERVILLE, CALIFORNIA 93257

TELEPHONE (209) 781-7575

July 23, 1984

Honorable Robert Dole
U.S. Senate
141 Senate Hart Building
Washington, D.C. 20510

Dear Senator Dole:

It is with great concern that I write you at this time and plead for your consideration of revising the tax reform Bill of 1984 #HR 4170.

One phase of this bill, that pertaining to restricting the minimum amount of interest an owner may carry in selling his real estate to a very high figure, would make selling this item totally impossible. This is nothing less than an erosion of the American Public's private rights to their ownership and sale of real property.

I am sure you are aware the Real Estate Industry will be affected throughout the United States and it will again become depressed as it was in the years 1980-83. We will have another so-called "recession", which is nothing more than a "depression" in the Real Estate Industry, as well as all related industries, such as the building trades and lumber industries.

The basic bill I totally agree with, but the piggy back phase pertinent to the restrictions of the owner carry back interest rate is, in my mind, as close to an unconstitutional bill that has ever been passed in my lifetime.

It is so apparent that the passage of this bill will not benefit the downpayment on our national deficit, as it is going to require more bureaucratic agencies to control it.

I emphatically request that you not only consider what effect the passing of this bill will have on all the American Public in the Real Estate Industries, as well as the associated industries, and that you voice a strong opinion in favor of revising or repealing the "imputed interest" portion of Bill #HR 4170.

Very truly yours,

Crystal Cowart

Crystal Cowart
Broker - Associate

CC:mcw

July 25, 1984

Submitted as part of the record of the Hearing On Employee Fringe Benefits held on July 26, 27 and 30, 1984 by the United States Finance Committee, Sub-Committee on Taxation and Debt Management.

By: J. Errol Gautreau
4524 Pine Ridge Drive
Baton Rouge, LA 70809

I am submitting this statement in support of the Private Pension System.

I feel that the system is one of the most socially beneficial forces at work today in America. American workers are enjoying unprecedented savings growth through tax sheltered investments in American companies, U. S. Government Securities and other investments. A social revolution of sorts is quietly taking place as American workers become major owners of American business. Pension Plans are one of the few tax shelters available to the average wage earner and much of these savings occur because it is done by employers at no cost to the employee except to the extent of their own contributions which, of course, belong to the employee).

Individual Retirement Accounts do not constitute a replacement for pension or profit sharing plans because IRA funds may be withdrawn by the employee, thus defeating the retirement nature of the funds.

It would seem folly to tamper with a system that is working so well and benefiting so many. I urge you to support the private pension system as it is presently structured.

J. Errol Gautreau

JEG
jr

Gemcraft Inc.

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room DS-219
Washington, D.C. 20510

SUBJECT: Hearing on Taxation of Employee Benefits (July 26, 27, and 30, 1984)

Dear Sir:

Over the last decades, private enterprise has increasingly listened to the wants and needs of its employees and, as a result, tailored employee benefit systems that are attractive to the worker. A private enterprise can no longer be competitive in the recruiting marketplace if appropriate benefits are not in place. At the same time, the employer must constantly evaluate the provision of benefits to make certain that current agreements are providing the best benefits at the least cost with the most effective delivery. This evaluation/negotiation process for benefits is ongoing in order to satisfy the needs of current employees and to stay competitive in hiring new employees. The competitive system of benefits, as it presently exists in private enterprise, is far superior to any program that would be dictated or administered through the government. A governmental approach must be avoided as long as private enterprise continues to meet the needs of employees as they are currently doing.

At Gemcraft, Inc. our system of benefits are fairly and efficiently delivered to all employees and include the following:

- Employer paid hospitalization/major medical insurance for every full-time employee.
- Employer paid dental insurance for every full-time employee.
- Employer supplemented hospitalization/major medical/dental insurance for dependents of all full-time employees.
- Employer paid life and accidental death and dismemberment for every full-time employee.
- Paid vacation time for every salaried employee.
    - 2 weeks/year during first five years of employment
    - 3 weeks/year after five years of employment
- Paid sick leave for every salaried employee.
    - Accumulated at the rate of 7 hours per month for non-exempt employees
    - Granted at 22 days/year for exempt employees
- Employer paid contribution for joining the credit union.
- Employer paid contribution for relevant continuing education for full-time employees.

The above system of benefits are delivered to all employees with no discrimination towards race, sex, creed, religion, national original, age, or position.

If a governmental system of benefits were to replace the present package of benefits, it is our belief that both Gemcraft, Inc. and its employees would be adversely affected in the following ways:

- Less competitive in marketplace if each enterprise had same governmental benefits package.
- More costly delivery of benefits.
- Less efficient delivery of benefits.
- More administrative paperwork to deliver benefits.

- Less flexibility in choosing benefits.

- Less freedom in choosing best provider of benefits.

For the above and other reasons, I strongly suggest that private enterprise be allowed to continue the negotiation and delivery of an effective and efficient employee benefit system. I further believe that taxation of employee benefits would place an undue burden on employers and encourage employers to further limit a benefits package. As a result, I believe taxation of employee benefits should also receive no further consideration.

Sincerely,

Diane Sauder

Diane Sauder
Director of Human Resources

DS/jp

STATEMENT OF GENERAL AMERICAN LIFE INSURANCE COMPANY
IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT ON THE
SUBJECT OF FRINGE BENEFITS
JULY 26, 27, 30, 1984

General American Life Insurance Company, with home office in St. Louis, Missouri, respectfully informs the committee of the adverse consequences to be expected from taxing employees for their employers' contributions for group life and health insurance, and retirement benefits.

General American provides life, health, and/or retirement benefit plans to approximately 5000 employer groups, covering almost one million employees plus their dependents, located in the 49 states in which we are licensed to do business. The size of the employer groups range from as few as two employees to as many as several thousand.

We recognize the committee's concern with discrimination in the availability and level of benefits to various types of employees. We would point out that the basic principles of group insurance require that plans be designed to preclude selection against the insurer. Medical and dental benefits are, with few exceptions, the same for all active employees of a particular employer regardless of age, sex, or income. Also, the same medical and dental benefits applicable to employees also apply to their dependents. Group life benefits and disability insurance benefits are most frequently set to approximate a multiple of employee earnings. Retirement benefits, of course, must adhere to the discrimination requirements of the Internal Revenue Code in order to receive tax-favored treatment.

Employee life, health, and retirement benefits of the type underwritten or provided by General American and other insurers, or furnished by self-funded employers, are not "fringes" in a class with club memberships, subsidized lunches, or merchandise discounts. These benefits furnish the means for sustaining life or meeting the high cost of living in the event of death, illness, or retirement for nearly the entire U.S. private and public work

force and their dependents. Almost all medical plans that we underwrite furnish life-time medical benefits up to $1,000,000 on each insured individual, thus providing virtually full coverage in the event of medical catastrophe.

Inclusion of the amounts contributed by employers for their benefits would be perceived by employees as an additional payroll tax, similar in nature to the present Social Security tax. The consequences will be:

1. Pressure by employees to receive the amounts previously contributed for benefits as current cash compensation.

2. Withdrawal from benefit plans of those with lowest earnings, since many employee benefits have a value that is independent of income.

3. Withdrawal, in particular, of the younger and healthier employees for whom certain employee benefits may have the least perceived value.

One result will be that many of those withdrawing will forego purchasing life or health insurance and become a liability to taxpayers at large, through Medicaid or otherwise, if they become seriously ill. Others may purchase coverage on an individual basis, but they will likely lose the advantages of mass purchasing power and professional advice that are typical in the current employee benefit plan market.

Another result will be that those remaining in the employer groups will be the older and less healthy individuals, who expect to receive substantial benefits. This will raise employer cost and result in higher taxes imposed on the remaining employees.

Taxing employees for contributions made by the employer is the equivalent of raising the portion of the cost paid by employees. This form of greater premium cost sharing by employees does not promote "cost containment" of medical expenditures because it does not furnish sufficient incentive to the employees to avoid unnecessary or abusive over-utilization. In fact, it may promote an "entitlement" attitude among employees that will aggravate any over-utilization problem. Our company has long recognized that employees

may not have too large a share of the premium cost if participation without anti-selection is to be obtained. We insist in our underwriting policy that the employer shoulder at least 25% of the employee premium cost, and we require, in the case of employee contributions, that at least 75% of the eligible employees participate. Further, we grant discounts in premium rates when employers pay full costs.

If the important coverages furnished by employers were taxable income to employees, any method by which the tax would be computed would either be inequitable or enormously complex, since the value of such benefits to employees varies by family status, health, age, geographic location, and, of course, nature of the benefit plan.

Our own company plan, covering some 1900 employees, calls for no payment by employees for the cost of employee coverage for retirement, life, or standard health insurance benefits. For our insurance plan, we require employee payment of 25% of the dependent medical cost in order to promote some equity among those with and without dependents. Also, for equity reasons, employees selecting richer alternate plans, or alternative HMO coverage, pay the difference of cost between such plans and the standard plan.

Our retirement programs consist of a defined benefit pension plan and a deferred profit sharing plan. In the first plan, we provide a service-and-salary related retirement benefit which, with Social Security, provides a retirement income sufficient to sustain retirees throughout their post-employment life. Our profit sharing plan provides increased incentives to employees for productivity and effectiveness while they are active. It also provides savings available to them in the case of extreme hardship as well as additional retirement income.

Our per-employee company cost for employee benefits is a not-insignificant amount. Adding that amount to the taxable income of each employee would constitute a heavy tax burden for relatively intangible benefits and would cause many to drop out of the plans.

We respectfully suggest that the existing system of employer-provided employee benefits has long served American business and labor well. Efforts to tax

employees for the value of these benefits will seriously jeopardize the future of this system, the absence of which could seriously impair the financial security of millions of employees and their dependents. Government intervention would become necessary. Any additional revenues collected from taxing employee benefit contributions would be spent to provide the financial security now provided so effectively by the existing system.

We suggest that taxing contributions for employee benefits will solve no real or imagined problem. It will serve only to weaken and perhaps destroy the current employer-provided benefit system -- a proven and effective method of delivering socially desirable benefits to this country's workers and their dependents.

Statement of Position ... for inclusion in the record of the Senate Finance Committee hearings on "Taxation Of So-Called Fringe Benefits".

By: Jack W. Houston, Executive Director of the Georgia Association of Petroleum Retailers, Inc., spokesman for Georgia gasoline retail service station operators (more than 3500 in Georgia) and their more than 10,000 employees.

Lower income workers in our industry will suffer if tax-free employee benefits are terminated (taxed). In excess of an estimated nine (9) out of every ten (10) will be adversely affected.

An elimination of the deductibility of employer contributions will adversely affect these small businesses. A survival struggle (economic) is underway and has been for some time in our industry. More than 3,000 of these small businesses have folded, hundreds more are in dangerous financial position. They need help, not more financial burdens to carry if they are to survive.

Thousands of jobs are at stake. Small business provides the bulk of employment in this country. Making it harder on small business by denying the deductibility of fringe

benefits for employees or to force employees to pay tax on the fringe benefits will adversely affect small business. These small businesses can not afford to increase salaries and wages to help employees cover the tax on fringe benefits if they become taxable to employees.

The increasing cost of health care is already jeopardizing this fringe benefit for employees. Add more cost at either point and you may cause a complete withdrawal of the valuable assistance to the mass of lower income workers of this Nation.

So long as fringe benefits are offered with limitations that keep such benefits from being windfall advantages for the higher pay workers it should be permitted. If anything, more rigid control, if needed, to guard against substantial advantages of the higher paid worker would be appropriate if there are violations of this basic principle.

Fringe benefit plans are helpful to small business to hold employees because of the lower income levels but generally are valuable to all employers.

Therefore, as spokesman for the Georgia Association of Petroleum Retailers, I urge the Committee to leave current tax favored treatment of fringe benefits, particularly for the employee pension and welfare benefits.

(502) 451-1464 (502) 451-1464

GLANZ

PLUMBING-HEATING-COOLING

"The Service People for Over A Half Century"

2482 Bardstown Road
LOUISVILLE, KENTUCKY 40205

We feel that private employee benefit plan systems serve a very useful social and economic purpose. They make employees feel self-supportive and less dependent on government to supply these benefits and also that their employers are truly interested in their welfare, resulting in better employee - employer relationship.

We support continued private employee benefit plans as they are at the present time.

Employees of C.W.GLANZ, SR., PLBG. & HTG. INC.

By: Harlan R. Glanz

GOETZ SERVICES, INC.

P. O. Box 232 · Hallettsville, Texas 77964 · 512/798-5671

August 9, 1984

In reference to the hearing on the Taxation of Employee Benefits, our employee benefit plan is a non-discriminatory plan in which all employees benefit equally. The same benefits are available to the lowest paid employee as to the highest paid. Men and women alike have the same opportunities to participate.

For instance, if our primary benefit, our accident and health insurance would cease to exist, many employees could not afford the entire cost of providing insurance coverage for their families, much less the hospital or doctor's charges if medical attention was necessary. They may hesitate before going to a doctor because of the lack of insurance and therefore many become seriously ill because of the absence of medical attention.

Goetz Services, Inc. also provides life insurance coverage for its employees and their dependents. The security of a family often lies in the knowledge that if a tragic accident were to occur their families would be taken care of. Without life insurance benefits provided for them, our employees would be deprived of this financial security provided for their families.

The needs of employees are covered through the employee benefit plan provided for them by their employers. Each private enterprise knows the needs of its employees better than anyone and can cover these more effectively and efficiently than any government program that might replace it. Overall, the price to our nation would be greater if employee benefit plans provided by employers were dismantled in the name of greater tax revenue.

The Golden 1

1933 - 1983

50 Years Strong

July 31, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219 Dirtsen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Please include this letter and the attached information in the printed record of the Fringe Benefits Hearings being held by Senator Robert Packwood (R-OR) on July 26, 27, and 30, 1984.

The Golden 1 Credit Union is a full-service, financial cooperative serving over 100,000 members in Northern California. With over $275 million in assets, The Golden 1 is one of the twenty largest credit unions in the United States.

During the past four years, The Golden 1 has experienced a lower than average rate of employee turnover. One of the major reasons for the low turnover rate is the Credit Union's commitment to providing a competitive compensation and benefits package to all employees. The Golden 1 is able to attract qualified candidates and retain well trained, knowledgeable employees. As an organization that emphasizes efficient member service, the Credit Union recognizes the importance of retaining employees who work well in a service-oriented environment.

The continued treatment of employee benefits as non-taxable is important to employers. However, tax-preferred treatment of employee benefits is even more vital to employees. The proposed taxation of health benefits could force employees to do without necessary coverages.

Your consideration of the attached information will be appreciated.

Sincerely,

Don Potter

Don Potter
Administrative Assistant

Company Name (Optional) The Cotton 1 Credit Union ☒ All Employees # 300 (12/31/83)
☐ Salaried Only #_____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

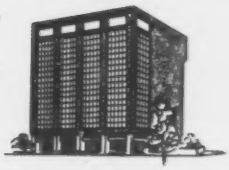
Benefit	Employer Payment $ (In Thousands)	Per Employee $
Total Benefits	2,436.0	8,120
Legally-Required Employer Payments (Sub-Total)	436.0	—
Social Security	339.5	1,132
Unemployment Compensation	69.8	233
Workers' Compensation	26.7	89
Other Payments	—	—
Discretionary Taxable Benefits (Sub Total)	966.5	—
Time Not Worked	596.6	1,988
Rest Periods	290.5	968
Other Taxable Benefits	79.4	265
Discretionary Tax-Favored Benefits (Sub Total)	1033.5	—
Defined Benefit Pension Plans	420.2	1,400
Capital Accumulation Plans	—	—
Disability Plans	24.2	80
Group Health and Life Insurance - TOTAL	560.1	1867
Active Workers	538.1	—
Retirees	22.0	—
Other Tax-Favored Benefits	29.0	96

Company Name (Optional) The Cullen & Credit Union ☒ All Employees # 300 (12/31/83)
☐ Salaried Only #_____

TABLE 2

EMPLOYEE BENEFITS PERCENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries (%)	Employer Payments as Percent of all Benefits (%)
Total Benefits	47.18	100.00
Legally-Required Employer Payments (Sub Total)	8.44	17.89
Social Security	6.57	13.93
Unemployment Compensation	1.35	2.86
Workers' Compensation	0.52	1.10
Other Payments	0.00	0.00
Discretionary Taxable Benefits (Sub Total)	18.72	39.68
Time Not Worked	11.56	24.50
Rest Periods	5.62	11.91
Other Taxable Benefits	1.54	3.27
Discretionary Tax-Favored Benefits (Sub Total)	20.02	42.43
Defined Benefit Pension Plans	8.14	17.25
Capital Accumulation Plans	0.00	0.00
Disability Plans	0.47	1.00
Group Health and Life Insurance	10.85	23.00
Active Workers	—	—
Retirees	—	—
Other Tax-Favored Benefits	0.56	1.18



GRANGE
mutual companies

650 SOUTH FRONT ST., P.O. BOX 1218, COLUMBUS, OHIO 43216, PHONE (614) 445-2900

July 26, 1984

The Senate Finance Committee
Room 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Attention: Roderich A. DeArment
Chief Counsel

TO THE HONORABLE MEMBERS:

* A PROTEST AGAINST THE ATTACK ON THE FAVORABLE TAX STATUS OF COST OF EMPLOYMENT BENEFITS *

As President and Chief Executive Officer, I have read several articles having to do with the present attack on the favorable tax status of cost of employee benefits. With this statement, I am hopeful that I can share with you some factual information regarding our Company and express to you some of my views why I oppose changes to the tax favored fringe benefit plans.

Grange Mutual Casualty Company with approximately 850 employees presently has approximately 84.6% earning less than $26,000 per year. It offers a health, dental, life, disability, pension, and incentive savings plan to our employees. The aim is to provide a good, sound and fruitful plan for the future to be used by the employees when needed - to help meet the emergencies and necessities. Even with these plans being afforded up front, we find that only 48.7% of our work force participate in an attractive incentive savings plan. The Company supplements the

accident & health plan which includes dental coverage by approximately 85% on the individual plan and by approximately 56% on the family coverage plan. Even with such a supplement, by the Company, the family plan requires the employee to pay $673.40 per annum. Although we encourage our employees to participate in the tax favored programs, our study reveals that many employees tend to want their money on payday.

The purpose of the present law, in my opinion, is to afford the employee an incentive to participate in tax favored programs within limits and to give the employer the tax advantages which in turn provides the incentive for companies to afford such plans. If the law is to change and mandate companies to report fringe benefits as income on the employees W-2 or 1099 forms, it is, in my opinion, a clear assumption that less employees would participate in the plans. Congress is in a unique position since it has a large faucet funding through millions of dollars and the power by additional taxation to open that faucet further anytime it needs funds. However, employees' faucet is small and its drainage is usually limited from earned income. With more taxation, the increase in inflation, and costs - the smaller the flow is left for income. We feel confident that in most cases if any of the tax benefits would be further added to employees' W-2 or 1099's as income that a majority of employees would opt for cash under present circumstances. The incentive to the employee to have up front fringe benefits must remain. To invade that field by forcing additional taxation only defeats the incentive that is available to the employee.

On the other hand, if the Congress decides to tax the employer on its contribution, then there is less incentive for employers to offer such plans. It has often been said: raise the prices and let the consumer pay. In Congress the philosophy has been: raise the taxes and let the taxpayer pay. If companies are to be prohibited the present tax deductions for these plans, then companies such as ours will be required to pass the costs to some extent to the employee. The so called "fringe benefits" have a purpose and need in our society and the legislative body with its open eyes realizing this fact passed the present laws. We oppose any legislation that would begin in any way to erode the incentive provided by the present acts.

We read constantly about the fast rising costs for medical, hospital, and dental services. As long as we have rising medical, dental, and hospital care even under the present fringe benefit tax favored laws, companies and employees must continue to increase the cost to maintain the plans. If Congress now intends to tax such plans a dual expense must be met - the tax and the rising cost. The employee and employer cannot afford both and maintain the types of plans afforded. Even the rising cost is now causing changes. If Congress wants the average citizen to keep an adequate health care under an insurance company plan, then it should encourage such an undertaking and leave the present laws in this field alone unless it desires to expand the already fringe benefits.

I consider our Company an average company and believe any survey of a comparable size company would reveal comparison factual

information as noted in our first paragraph. The participation in many of these plans, even under the present law, is not as great as one would believe until a study is made which reveals already some of the problems existing due to inflation and administration cost of the plans. Our factual information reveals that the present benefits do not go to the highly paid because in our Company approximately 85% of our force receives less than $26,000 per year.

Many Americans do not provide themselves with adequate medical, dental, and hospital plans, unless there is a mandate or some encouragement to do so. Most of these plans are offered from employer/employee relationships. Our legislative body should continue to encourage participation in these tax favored plans by offering advantages to having such plans rather than to deter participation through the method of taxation on the costs for such benefits. I strongly urge a continuing effort on the part of Congress to expand the fringe benefit area. It induces many Americans to take care of themselves rather than be dependent on public funds.

Thank you for your kind attention and considerations to this matter. If I may provide your committee with additional information at any time, be assured, I would be happy to do so.

Respectfully submitted,

J. Frederick Reid
President & Chief
Executive Officer

P.O. Box 668 • Wheaton, Illinois 60189 • Telephone (312) 462-8050

GREATER EUROPE MISSION | *Training Europeans to Evangelize Greater Europe*

July 31, 1984

Committee on Finance
c/o Roderick A. DeArment, Chief Counsel,
Committee on Finance, Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

RE: The Senate Finance Committee hearings on Major Tax Reform Options

Dear Sirs:

I am not writing as a tax expert, but as a tax payer and an employee of a non-profit organization who has benefitted from tax benefits for charitable gifts. I have no strong opinion on what form of taxation or type of tax is more effective in our system.

However, I do agree with the long established congressional policy of encouraging charitable giving to non-profit organizations by providing tax incentives to people who make such gifts. This is an incentive for all Americans to help their countrymen and other people around the world by sharing their wealth no matter how large or small it may be. Although, most people do not give primarily for the tax benefits, these are none-the-less added advantages for giving charitable gifts. Many times it is one of the happy by-products of such a gift, and in the long run it may result in further giving by that particular individual.

As a member of a Christian mission, I have seen the benefits to our organization because we exist and continue to do our work strictly because of charitable gifts. Our nearly 400 missionaries who work in 13 countries of Europe could not be there working with people and doing the job that they feel they have been called to do if it where not for the charitable gifts of thousands and tens of thousands of people. The obvious tax incentives that our current taxing system provides is one of the reasons why these tens of thousands of people give their dollars to help support missionaries and to help support the U.S. functions of an organization like ours.

I urge you, as you reconsider new taxation methods or revisions in the old taxation system, to not lose sight of the long time position of our leadership in this country to encourage charitable giving by providing tax incentives to those people who give. This is a precedent that has been established, and I think a very good one. I encourage you to not lose sight of the importance of this policy that helps all forms of non-profit organizations - relief organizations, conservation organizations, private schools, and thousands of other non-profit organizations who benefit from this long standing policy regarding charitable giving and taxation.

I thank you for hearing the views of those who are testifying before the committee and for taking time to read the comments of people like myself who feel very strongly about this form of encouragement to people who help support non-prcfit organizations.

Sincerely,

Gary G. Wall
Director of Development

GLW:gd

GREENEBAUM
DOLL & McDONALD
(A PARTNERSHIP INCLUDING PROFESSIONAL SERVICE CORPORATIONS)
3300 FIRST NATIONAL TOWER
LOUISVILLE, KENTUCKY 40202
TELEPHONE (502) 589-4200
TELECOPIER (502) 589-4412
TELEX 213029

S. I. GREENEBAUM (1902-1975)
ANGUS W. McDONALD (1912-1990)
W. VAN METER ALFORD (1916-1981)

A. ROBERT DOLL*
ROBERT F. MATTHEWS
WILLIAM C. BOONE, JR.
LARAMIE L. LEATHERMAN*
EDWIN H. PERRY
IRWIN J. EISINGER
DONALD H. BALLEISEN
THOMAS A. BROWN
MARVIN J. HIRN
MICHAEL G. SHAIKUN*
MARTIN S. WEINBERG*
IVAN M. DIAMOND
MICHAEL M. FLEISHMAN*
ELLEN M. PEDLEY
LAWRENCE K. BANKS
PHILLIP D. SCOTT
R. VAN YOUNG
EDWARD B. WEINBERG*
CHARLES FASSLER
RICHARD S. HOLT
JOHN A. WEST
MICHAEL L. ADES
JERRY E. ABRAMSON
W. PLUMER WISEMAN, JR.
ERIC I. ISON
JOHN S. REED, II
JOHN H. STITES, III
RICHARD A. GETTY
ROBERT C. STILZ, JR.
JOHN R. CUMMINS
JAMES E. MILLIMAN

P. RICHARD ANDERSON, JR.
LLOYD R. CRESS
CHARLES J. LAVELLE
MARK S. AMENT
DAVID M. BOTH
JAMES A. KEGLEY
MARCUS P. McGRAW
DOROTHY M. PITT
DAVID W. HARPER
JAMES R. COX
JOHN S. SAWYER
HIRAM ELY, III
JOHN V. WHARTON
C. JUNE NALLEY
GARY R. WEITKAMP
PEGGY B. LYNDRUP
PATRICIA W. BALLARD
SCOTT W. BRINKMAN
LISABETH H. ABRAMSON
HENRY C. T. RICHMOND, III
LOIS T. CALVERT
PAULA J. SHIVES
ALAN C. PARSONS
JOHN E. SELENT
SCHUYLER J. OLT
PATRICK A. NEPUTE
BARRY J. SOBERING
BARBARA E. HARTUNG
FORREST W. RAGSDALE, III
JANE I. TUDOR
RICHARD S. CLEARY

NICHOLAS R. GLANCY
HARTWELL P. MORSE, III
MICHAEL C. SLONE
KATHLEEN A. McDONOUGH
MARGARET E. KEANE
ELOISE D. BRADSHAW
ELIZABETH A. GALLOWAY
RICHARD T. BROIDA
CARMIN D. GRANDINETTI
WILLIAM L. MONTAGUE
JANET P. JAKUBOWICZ
DANNY C. REEVES
SAMUEL H. FRITSCHNER
VICKI L. BROOKS
LISA R. PORTA
STEPHEN I. WOLFF
RICHARD J. EMMETT
I. JAY KATZ
DANIEL M. GRAY
MARK S. RIDDLE
MASTEN CHILDERS, II
HOWARD S. STURM

OF COUNSEL
LILLIAN M. FLEISCHER
W. BRUCE LUNSFORD

LEXINGTON OFFICE
1400 VINE CENTER TOWER
P. O. BOX 1808
LEXINGTON, KENTUCKY 40595

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee and Finance
Room 219
Dirksen Senate Office Building
Washington. D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26th, 27th and 30th by the United States Senate Finance Committee, Sub-Committee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Edwin H. Perry

/jp
Attachments

Submitted as part of the record of the Hearing on Employee Fringe Benefits, held on July 26th, 27th and 30th by the United States Senate Finance Committee, Sub-Committee on Taxation and Debt Management.

By Greenebaum Doll & McDonald

The Sub-Committee Hearings on Fringe Benefits provide a necessary and timely opportunity to dispell the growing perception in Congress that employee benefit programs, particularly the private pension system, serve little useful social or economic purpose and primarily benefit only highly paid individuals in the private sector. These and other myths about employee benefits are largely inconsistent with the reality of the system as we see it in operation on a day-to-day basis.

Social and Economic Goals

The data developed by numerous, reliable studies has overwhelmingly demonstrated the breadth of coverage and social and economic benefits of employee benefit programs. It is difficult to understand the myopic challenge to these programs. Social goals are furthered by pension and welfare

plans in that they provide financial security for workers in both their working and retirement years. Welfare plans bring immediate security to employees by providing an economic cushion for unexpected expenses associated with health, dental, legal, and other services. The private pension system complements Social Security and related programs by reducing the growing demands on these entitlement programs. The Committee for Economic Development, a bipartisan business group, has properly suggested in its paper Social Security: From Crisis to Crisis that private pensions should be encouraged more aggressively by streamlining regulations and laws. As private pension coverage expands, the proportion of income required to be provided by the Social Security system can be lowered.

The achievement of social and economic goals related to employee benefits is threatened, not only by challenges to the private pension and welfare system, but also by demographic changes which our society is undergoing. Declining birth rates and the aging of America increase the importance of a viable private employee benefit system in serving the goals of current advances in productivity and future retirement security. According to the Census Bureau's report entitled America in Transition: An Aging Society, those over age 65 made up about 12% of the U.S. population in 1982. By the year 2020, 17% of our population is projected to be over 65. Other Census Bureau reports show that the ratio of working to non-working people is expected to decline to 3.0 to 1 in

2030. In 1980, that ratio stood at 5.1 to 1. Not surprisingly, the ratio of Social Security taxpaying workers to Social Security beneficiaries is expected to decline to 2.2 to 1 in 2030, from 3.7 to 1 in 1981. There is little doubt that sound social purposes are served by the private pension and welfare system. The importance of these purposes and the system's role in serving them continue to grow, not diminish.

From an economic standpoint, pension and welfare plans provide efficient and economical means by which employers improve current employee morale and serve as a vital tool in attracting better workers. Retirement plans and welfare plans, by providing present economic security to employees, have the effect of providing immediate economic benefits to employers. Welfare plans provide immediate security for near-term health and welfare needs while retirement plans assure employees that their retirement needs will be met in the future. Relief from providing for these needs on an after-tax basis by employees both improves their morale and their productivity. Employees are becoming more knowledgeable and evermore concerned about financial security and ample evidence exists that employee employment choices are motivated by available benefit packages offered by prospective employers.

Efficiency is realized through flexibility. Each employer is able to tailor a program within the regulatory framework

which meets the needs of his particular work force. It is doubtful that government provided programs could be as flexible as the programs now provided under the private system and encouraged by certain tax incentives. Many governmental attempts at providing welfare related benefits have also been disproportionately expensive in light of the quality and breadth of service provided.

Thus, present social and economic goals are furthered by productivity increases associated with employee benefit programs, while the longer range goal of retirement security are also achieved.

Benefits Inure to All Employees

Moreover, the system which has developed to provide employee benefits over the past ten years has been guided by business and governmental leaders toward a very important goal. Almost uniformly, pension legislation and regulations which have been implemented since the passage of the Employee Retirement Income Security Act of 1974 have had the primary purpose of assuring all workers that they will receive a real, secure benefit at retirement. The result of the numerous legislative enactments requiring equitable treatment of workers has been concrete employee benefit programs of wide application upon which workers at all levels of the private sector have come to rely.

Many uninformed critics of the current system have assailed employee benefit programs for their failure to serve all economic segments of working America. Skeptics claim that today's programs benefit primarily the highly compensated at the indirect tax expense of lower paid employees.

The Employee Benefit Research Institute and the Department of Health and Human Services recently released a thorough study entitled The Changing Profile of Pensions in America. The study found that 76% of all non-agricultural wage and salaried workers who earned $25,000 or less annually were covered by a pension plan. In addition, 70% of all vested benefits belong to this group. Health coverage is now in place for about 80% of those same non-agricultural workers making less than $25,000. Benefit coverage of segments of our population which have traditionally been denied pension and welfare benefits is also expanding. Pension coverage of women, for instance, has expanded by nearly 2.2 million workers since 1979.

The experience of our clients, like that of plan sponsors across the country, does not support the critics' inaccurate and unwarranted view of benefit programs. It does, however, support the data demonstrating broader and more extensive coverage of all workers. Greenebaum Doll & McDonald has assisted in the establishment of over 350 pension and profit sharing plans for more than 200 clients. These clients range

from small corporations, partnerships, and sole proprietorships to "Fortune 500" companies. By and large, these plans represent the primary source of retirement income, other than Social Security, for the vast majority of the covered employees.

The Loss of Tax-Favored Status

The employers that we represent, in all likelihood, would not provide the amount or quality of retirement and welfare benefits they currently offer without the favored tax status employee benefit programs now enjoy. We cannot predict with great accuracy what level of benefits, if any, would be provided. Such a sweeping generalization for as diverse a client base as we serve would be of questionable reliability. However, we can say that the effects undoubtedly would be adverse. If benefits are currently taxed at both the employer and employee levels, then the amount of funds available to provide the benefits desired by our society must be correspondingly reduced. Thus, benefits would be reduced or eliminated.

Denying the tax-favored status of pension and welfare plans would have both immediate and long-term effects. As one example, consider the findings of the National Center for Employee Ownership. This organization recently canvassed industry consultants about the significance of tax incentives.

Their survey shows that tax benefits played a key role in clients' decisions to institute plans in 93% of cases. Some 50% of the employers adopting employee stock ownership plans would not have instituted them without the tax advantages. Additionally, the Employee Benefit Research Institute/Health and Human Services study indicates that tax incentives have increased employer pension contributions by 20% to 30% since 1960 and are a primary reason for the 90% health insurance coverage rate for full-time employees.

Just as an employee benefit program increases morale and productivity in the short run, the denial of tax-favored status and the subsequent disappearance of a program would have adverse effects on employee morale and productivity in the short-run. The greater tragedy, however, would await the employee at his or her retirement date when the retiree would receive little, if any, of the substantial retirement benefits currently provided under our tax-favored system. Similarly, the employee would face financial hardship and insecurity at the time he incurs substantial expenses related to sickness or accident if employer sponsored accident and health benefits were reduced or eliminated.

If the private pension and welfare system as we know it today is scrapped, who loses the most and what alternatives exist for the employee?

The average worker probably loses the most, not highly compensated individuals or business owners. Average workers lose the most because they have less discretionary income to spend on retirement benefits. Current needs such as food, clothing, shelter and transportation command a greater portion of the lower paid employee's wages than do such needs for more highly compensated individuals. Lower paid workers are left with less income for savings (or purchasing retirement benefits) regardless of whether or not the savings (or purchases) are realized through a tax preferred vehicle such as an IRA or non-tax favored investment.

In the event that the private system providing fringe benefits loses its tax-favored status, employers terminate their plans or reduce the benefits provided, and the employee turns elsewhere for benefits, the role and burden of the government will undoubtedly increase. Greater reliance upon the Social Security system will only exacerbate the problems now faced by the system. In light of the demographic changes our society is experiencing, Social Security, Medicare and Medicaid entitlement programs will command greater and greater levels of government resources. The loss of tax-favored status of employee welfare and pension plans will accelerate this trend. This burden will increasingly be shouldered by generations yet unborn as our society ages.

In conclusion, we submit that the pension and welfare system now in place represents one of the finest examples of what the cooperation of individual workers, employers and the government can accomplish. Within the current system, each has responsibilities to the individual to provide for security in the areas of the most basic of human needs -- specifically the workers' welfare and retirement security. Most importantly, the workers who can least afford expenditures for retirement and welfare needs are those who benefit the most under our current system. More and more women and other minority workers are reaping the benefits of the system.

If the current private employee benefit system is further weakened by tax neutral policies, the contribution of other elements in the retirement formula must be increased or strengthened to maintain or improve the level of benefits now provided workers. Greater governmental intervention and entitlements may well lead to the expansion of the welfare state to unprecedented proportions. Private savings will be an inadequate substitute because of the bias most people have toward present consumption over future savings.

Central Baptist Church
GREENEVILLE CHRISTIAN ACADEMY
NEWPORT HIGHWAY 1 MILE PAST CITY LIMITS
POST OFFICE BOX 427 PHONE 615-639-3191
GREENEVILLE, TENNESSEE 37743

PASTOR
DANNY A. WHETSTONE
639-4019

PRINCIPAL-GCA
SONNY EVANS

YOUTH DIRECTOR
GREG HOWELL

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, DC 20510

RE: Taxation of Employee Benefits
Hearing Dates: July 26,27, & 30, 1984

Gentlemen:

I am deeply concerned over the impending hearings on the taxation of employee benefits. The potential danger to the success of private enterprise and employee welfare is alarming. The private sector is and will continue to be the only means of successfully caring for its employees.

As a small Christian school with approximately twelve employees, salaries and benefits are by no means large. However, combined, the two do provide adequate security during the school term. Benefits for both the staff and teachers include a health care policy with a small life insurance rider, tuition assistance, personal/sick days, and an educational assistance program for those teachers desiring to return to school.

The present health care program is provided to any employee who desires to enroll. Coverage is not limited to any sector of the staff. Both male and female, married and unmarried, experienced and inexperienced workers are eligible to participate. Though costs run high - about $994 per month for the group - individuals could never afford the same protection apart from the group. The following case study illustrates the point:

> During the 1982-83 school year, a teacher, the mother of three, became pregnant. Desiring to stay home and care for the coming infant, the mother-to-be informed the administration that she would not be returning in the fall of 1983. Because the baby

was not due until November, the family was in a quandry. The husband, a farmer, and the rest of the family had been covered under the teacher's health insurance plan. The teacher, whose contract ended on May 31, would no longer be employed and therefore, not covered under the group policy. The options were few. The teacher could teach part of the 1983-84 school year under a new contract and remain covered, she could not teach and forfeit coverage, or the husband could pick up the same policy that the group had at an approximate cost of $1,100 for two quarters of the calendar year. In this case, they knew that hospitalization was inevitable. Needless to say, few persons can afford to pay such money for health insurance just in case they become hospitalized.

The small life insurance rider, tuition assistance, personal/sick days, and educational assistance are all small benefits that provide a large boost in morale for the employees. The employees would suffer not only physically, but also mentally, if the loss of said employer-sponsored benefits did not exist.

Finally, private enterprise has built an efficient and effective arrangement for meeting the needs of employees through the employee benefit system. When the federal government spends twice as much per bed in building hospitals as the private sector, and four times as much for building nursing homes, it is quite obvious which group should be providing employee benefits. If the government systematically dismantles the present benefit programs for tax purposes, someone must pick up the tab. Employee needs must be met. The President's Private Sector Survey on Cost - The Grace Commission - obviously reveals that administrative costs and inefficiency for government-run programs are exorbitant. Private enterprise, with its incentive for profit and efficiency, will always provide more for less than the federal government could ever hope to.

I urge you to promote employee morale and encourage the free enterprise system by removing any claims of taxation upon employee benefits.

Sincerely,

Doyle J. Evans, Jr.

Doyle J. Evans, Jr.
Principal
Greeneville Christian Academy

Statement of Groman Corporation in Connection
with the Hearings of the Senate Fianace Subcommittee
on Taxation and Debt Management on the Subject
of Fringe Benefits

July 26, 27 and 30, 1984

We at the Groman Corporation believe that it is our responsibility as employers to meet the basic financial security needs of our employees. Accordingly, we offer the following benefit package to all of our employees:

1. Profit Sharing, Savings and Retirement Plan

   a) Profit Sharing, based on the profitability of the Corporation, distributed to employee accounts as a percentage of their wages and salaries as compared to the total wages and salaries of all employees participating.

   b) Savings Plan - Every employee may contribute to the Plan 6% of wages or salaries and the Corporation will match the contribution 35 cents for every $1.00 contributed by the employee.

2. Group Health and Life Insurance, which includes all employees of the Corporation on a non-discriminatory basis. Group health and dental plans for all our employees and their dependents are non-contributory. Temporary and permanent disability plans are also included in the Group Plan.

   a) Group health and dental plans pay the same amount to each employee under a given set of circumstances; ie., no differentiation between hourly and salaried employees.

   b) Temporary and permanent disability payments are made on the basis of a percentage of employees last wage or salary prior to disablement with specified maximum monthly payments.

   c) Plan is non-discriminatory with all employees and dependents covered equally regardless of payroll status.

d) Life Insurance is provided which amounts to two times employee salary at the time of death.

e) Plan has equal conversion rights for all plan participants.

The attached tables show Employee Benefit Dollar cost.

The Groman Corporation has chosen to provide employee benefits rather than pay additional cash wages, since we consider the benefits essential to the economic welfare of our employees. Our company is in a position to provide insurance coverage at a far lower rate than could our employees on an individual basis. This factor, plus the tax incentives provided by existing law, allow us to provide valuable benefits to all of our employees at a price that we can afford. Increasing the cost of our benefits through tax law changes, will mean that the Groman Corporation will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in our premium, we are vitally interested in medical cost containments. We are constantly studying this problem and evaluating proposed solutions.

We developed a fringe benefit program which does not discriminate in favor of the highly paid, men or non-minority employees.

We firmly believe that good employee fringe benefit programs are essential to the economic security of our employees. We believe that we know the needs and wants of our employees by way of fringe benefits.

We believe that if tax incentives are discontinued, many employers will cut back on fringe benefits to their employees. In practice, our employee benefit system is an effective and efficient means of recognizing and meeting employee needs in a fair and consistent manner.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided, to make known our views as to the importance of employee benefits. We believe that to encourage employers to provide benefits, is consistent with the social policy of our country, and merits the continuance of the IRS code provisions, which provide incentives to both employers and employees to commit their dollars for this purpose.

Paul G. Richards

Paul G. Richards
President
GROMAN CORPORATION

Company Name Groman Corporation

☒ All Employees # 425
☐ Salaried Only #
*Plan Participants 399

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $ in hundreds	Per Employee $
Total Benefits	1,718.8	4,089
Legally-Required Employer Payments		
Social Security	477.1	1,123
Unemployment Compensation	148.0	348
Workers' Compensation	173.0	407
Other Payments		
Discretionary Taxable Benefits		
Time Not Worked		
Rest Periods		
Other Taxable Benefits	31.6	74
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	290.0	727
Capital Accumulation Plans		
Disability Plans		
Group Health and Life Insurance	599.1	1,410
Active Workers		
Retirees		
Other Tax-Favored Benefits		

Company Name Groman Corporation

XX All Employees # 425
☐ Salaried Only #
*Plan Participants

TABLE 2

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaried	Employer Payments as Percent of all Benefits
Total Benefits	21.83%	100.00%
Legally-Required Employer Payments		
Social Security	6.06%	27.77%
Unemployment Compensation	1.88%	8.61%
Workers' Compensation	2.20%	10.06%
Other Payments		
Discretionary Taxable Benefits		
Time Not Worked		
Rest Periods		
Other Taxable Benefits	.40%	1.83%
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	3.68%	16.87%
Capital Accumulation Plans		
Disability Plans		
Group Health and Life Insurance		
Active Workers	7.61%	34.36%
Retirees		
Other Tax-Favored Benefits		

Company Name Groman Corporation

XXX All Employees # 425
/ / Salaried Only # _____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 1983

	Defined Benefit				Employer Capital Accumulation				401(k)			
	Participate		Fully Vested		Participate		Vested		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	83	20.8	21	8.8	___	___	___	___	___	___	___	___
10,000- 19,999	222	55.6	149	62.6	___	___	___	___	___	___	___	___
20,000- 49,999	85	21.3	61	25.6	___	___	___	___	___	___	___	___
50,000- 99,999	7	1.8	5	2.1	___	___	___	___	___	___	___	___
100,000 or more	2	.5	2	.9	___	___	___	___	___	___	___	___
Total	399	100%	238	100%	___	100%	___	100%	___	100%	___	100%

Company Name Groman Corporation

☒ All Employees # 425
☐ Salaried Only # _____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1983

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999	109	25.6%	___	___	___	___
10,000- 19,999	222	52.3	___	___	___	___
20,000- 49,999	85	20.0	___	___	___	___
50,000- 99,999	7	1.6	___	___	___	___
100,000 or more	2	.5	___	___	___	___
Total	425	100%	___	100%	___	100%

Company Name Groman Corporation

☒ All Employees # 425
☐ Salaried Only # _____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# -	$ _____	19__
Defined Benefit Plan Retirees Survivors in Pay Status	# -	$ _____	19__
Defined Benefit Plan Vested Separated	# -	$ _____	19__
Capital Accumulation Plan Retirement Age Distributions	# -	$ _____	19__
Capital Accumulation Plan Termination Distributions	# -	$ _____	19__
Retiree Health	# -	$ _____	19__
Retiree Life	# -	$ _____	19__
Retiree Other	# -	$ _____	19__

GR GUARANTEE RESERVE LIFE INSURANCE COMPANY
530 RIVER OAKS WEST ■ CALUMET CITY, ILLINOIS 60409 ■ 312-375-7800 ■ INDIANA 219-931-3550

ANNE KUTAK
Vice President, Secretary
& General Counsel

August 7, 1984

Roderick A. De Arment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Re: Finance Subcommittee on Taxation And
Debt Managements - Hearings on Fringe
Benefits Scheduled for July 26, July 27
and July 30, 1984

Dear Mr. De Arment:

In connection with the above Hearings, we ask that this written statement be included in the printed record.

Our employee benefit programs are provided on an equal basis to all employees. As such, there is no discrimination in the distribution of these benefits to the highly paid or to males or females.

While temporary part-time employees are excluded from certain of our benefit programs on the basis of service, they must be included in those legally-required employer payments which cover all employees, such as Social Security, Unemployment Compensation, Workers' Compensation, and pay for rest periods.

The following summary provides an outline of our Group Life, Medical, Disability and Retirement Programs. Incidentally, our current full-time work force consists of 24 males and 83 females, for a total of 107 employees.

Group Medical:

Current Enrollment	87 employees
As of 12-31-83	
Total Claims Paid	$114,210
Total Premium Paid:	
By Company	$ 88,900
By Employee	$ 20,577

Group Insurance:

Current Enrollment	105 employees
Volume of Coverage	$1,350,500
Optional Life Volume	$ 869,000

Group Disability Plan:

Current Enrollment	105 employees
Monthly Premium Paid by Co.	$918.00

Employee Retirement Plan

As of 12-31-83	
Annual Company Contribution	$152,391
Number of Plan Participants	96

(Based on current ERISA funding requirements, we estimate our 1984 annual contribution to be approximately $30,000 more than that of 1983. Incidentally, approximately 30% of our work force has met the service requirements for a vested plan benefit.)

Our employee benefit programs were established for the primary purpose of providing a measure of financial security to employees and their families at retirement or in the event of severe illness, injury or death.

As a conservative estimate, the benefit areas discussed in this statement amount to approximately 25% of an employee's salary.

However, if an employee did not have the advantage of any of the coverages provided by a "group" plan, the cost for individual and family member coverages could easily escalate to more than 100% of salary, depending on the state of that individual's health. Even if by some miracle a person could afford those costs, he or she could be denied coverage on the basis of lack of evidence to support "good health". As a result, any money ear-marked for retirement savings would be spent on health insurance or medical expenses.

We therefore urge you to consider the social and monetary value of employee benefits, and the effect on our national population should these programs not exist.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not

be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

Very truly yours,

Anne E. Kutak
Vice President, Secretary
and General Counsel

AEK:bb

Gulfstream Aerospace Corporation
P. O Box 2206, Savannah, Georgia 31402-2206
Telephone: (912) 964-3256

James L. Bradbury
Senior Vice President
and Chief Financial Officer

August 2, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

James L. Bradbury

JLB:gr

Att.

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By James L. Bradbury
Senior Vice President - Finance and Administration
Gulfstream Aerospace Corporation

From the hearings that were held on July 26, 27 and 30, it could be interpreted that the private employee benefit plan system has no benefit and should not receive tax incentives. I believe this is a complete misstatement of fact and the conclusion was reached with improper research.

To believe that the elimination of tax incentives on employee benefit programs would not eliminate the programs themselves is an error. Believing that the elimination of the programs would not have an adverse impact on the Social Security System, which is already having problems keeping its head above water, is another error.

When we say that the program has no "grass roots" support, it is evident that this has not been discussed with the working individual. If we consider eliminating the tax incentives, which will surely eliminate the plans themselves, let us give these funds back to the individual by reducing his taxes so that he will have enough money to save. These tax reductions can be provided by eliminating all of the federal and state employee benefit programs which are paid for by the working taxpayer. We can eliminate these programs because they have no "grass roots" support. I do not know that this is true, but I do have approximately 3,000 employees, none of whom to my knowledge were asked

prior to the hearing.

To substitute IRA's, left to and controlled by the employee, will not satisfy the needs of the employee, and in many cases nothing will happen. The employee's requirements in future years will be such that the Society Security System will not provide for his security and well-being, and he will have to rely on welfare.

Let us find ways whereby today's working people can provide for themselves in the future without creating monstrous bureaucratic offices to provide these services, which will cost additional money.

Due to these tax incentive programs, the working class is able to save and provide for a portion of its own future. This is important to these individuals; let's not return them to a state of bureaucratic reliance.

Testimony Submitted For The Record

By

HARDEE'S FOOD SYSTEMS, INC.

A Division of Imasco USA

Hearing On Employee Fringe Benefits Held On
July 26, 27 and 30 Before The
United States Senate Committee On Finance
Subcommittee On Taxation And Debt Management

Hardee's Food Systems is greatful for the opportunity to submit testimony concerning the tax treatment of Employee Fringe Benefits to the Senate Finance Committee Subcommittee on Taxation and Debt Management. Hardee's, like most major employers in America, provides a comprehensive program of benefit and welfare plans designed to provide income security and peace of mind to company employees and their families. These programs would not exist in their present form, or the same degree of employee security exist, if the current tax treatment of these programs were not continued.

Since the end of the Second World War, no movement in American Society has done more toward increasing domestic tranquility or promoted the general welfare more than the partnership that has existed between private employers and the Federal and State Governments with respect to programs and policies that protect the American worker.

Social Security, state disability programs, worker's compensation, and unemployment insurance have been structured to provide workers with the maximum security available through public means insulating individuals, where feasible, from the most extreme uncertainties of life. In concert with these programs, private employers have developed additional flexible benefit plans which complement the legitimate role government should play. A wise federal tax policy helped create the multiplicity of private plans that provide Death Benefits,

Retirement Benefits, Life Insurance, Health Care, Disability Benefits, day care, and educational assistance and other benefits in a manner which is both efficient and wise for society.

Hardee's would be forced to re-examine closely the entire benefits philosophy of the Company should the tax treatment of these plans be adversely altered. Without question, changes would lead to increased payments by individuals and decreased participation from those now served. Most employees would not purchase replacement insurance through outside vendors, even if salaries were increased. It is naive to believe that cash would be converted into such "long term" benefit plans given the fluid nature of expendable income.

The Committee should consider the long term effect and disincentive for health and dental care that a change in the present favorable tax treatment of benefits would cause. Recent benefit policies which place additional responsibility on corporate America to control provider cost has contributed significantly to increased scrutiny of abuses in health care. Examination of the cost associated with Medicaid and Medicare should point up the folly of the alternative...National Health Insurance.

A stable environment with relation to the security of the individual, within his home, job and family is what this fundamental partnership between the Federal Government and

private plans should be about. Changes in the existing structure should not be considered lightly. New forms of health care, larger numbers of women in the workforce, rising health cost, and the increasing importance of benefits in collective bargaining, all contribute to the complexity and difficulty of a quick fix. Administratively, any governmental change, no matter how simple requires the plan operator to develop advanced technical systems to handle the change, secure approval to implement, communicate and price the new change, develop administrative systems, and finally implement the change. To remove the tax preferred status that these plans now enjoy could easily cause the entire benefits structure to collapse as every program in the country is restructured.

One hundred and fifty million Americans depend on the current laws and commitments that have been made to them as they plan for the future. The current debate concerning the reformation of the tax code should not be used as a vehicle to cut indiscriminately where tax incentives have worked. The current system provides improved benefits to citizens more efficiently and flexibly than the Federal Government could provide the same services. These benefits would no longer be available at the same level without the current tax incentives. Thus, in terms of income and job stabilit , any change would be a de-stabilizing factor in the securit the American worker expects and deserves.

Social Security nor other Federal programs can adequately meet the needs of existing plan participants. The flexible and ingenious manner in which private plans have been structured to accommodate the needs of each companies' employees is a testament to the advantage of free market pressures and competition in the benefit area.

In conclusion, the committee should seek to eliminate any abuses that may exist in the benefits arena while leaving intact the current system that has served the country well.

HARRIS

JOSEPH A. BOYD
CHAIRMAN

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

J. A. Boyd

enclosure

Submitted as part of the records of the hearing on Employee Fringe Benefits, held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Joseph A. Boyd, Chairman of Harris Corporation

Harris Corporation provides or subsidizes protection for its employees and their families for death, disability, medical and dental expenses, and retirement benefits.

In the past several years, corporations have been asked to assume more financial responsibility for the United States' social programs, not only in the area of increased social security taxes, but also through legislation which has indirectly shifted expenses to the private sector. TEFRA effectively curtailed public and private companies from coordinating their medical benefits with those of Medicare for active employees and family members age 65 to 70, thereby subsidizing medicare indirectly with millions of employer dollars. The savings that Medicare generated became additional expenses of both private and public companies. TEFRA also created a prospective reimbursement of medical expenses which cap the amount of payments to providers. Consequently, providers of medical care are passing Medicare overruns, i.e., those expenses not covered by Medicare reimbursement, onto the public in the form of higher medical charges. As a result, corporate benefit plans which are already experiencing record claim expenses and rate adjustments are having to absorb additional cost from the Medicare system. The combination of this cost shifting and rapidly raising medical costs have

reduced our profits. Employees are also being asked to share in more and more of the cost of these benefits because we have been forced to increase the employee contributions for benefits and have increased their amount of co-insurance.

If corporations are unable to provide fringe benefits because the cost to do so would jeopardize its business existence, then a majority of people will be forced either to go without insurance, or the government will be forced to provide insurance for them. We do not believe either option is viable or acceptable in our country today. Frankly, the federal government has never done a good job in administering programs affecting large numbers of people because inevitably, bureaucracy and waste reduce the efficiency and increase the cost of federally run programs. In addition, funding often becomes a "political football" for government programs such as Medicare and social security.

Although we are as committed to the reduction of the federal deficit as any congressman in office today, we feel the taxation of fringe benefits in an attempt to solve our deficit problems will only create future problems in regard to the well being of our citizens.

We believe that the current tax for fringe benefits incentives to employers and employees should at least be continued as it is. Although there are probably some abuses under the current system, we believe they happen very infrequently, but receive a great deal of publicity. If the object is to prevent these few abuses, then Congress could easily draft guidelines to prevent blatant discrimination.

In conclusion, we believe the current system, while not perfect, allows the majority of Americans excellent medical care for significantly less than it would cost the government to provide it. We believe the existing tax structure should be maintained because 1) the government is not in the best position to provide needed protection to employees, 2) the current structure recognizes that employees could not provide their own benefits, 3) it recognizes that employers are in the best position to provide benefits, and 4) it takes advantage of the competitive nature of the free enterprise system.

HAWKEYE-SECURITY INSURANCE COMPANY

A Financial Security Group Company

Raymond J. Russell
Vice President and Secretary

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

RE: Fringe Benefits Hearing, July 26, 27 and 30

As the personnel officer of five insurance companies (Hawkeye-Security, United Security, Northeastern, First Reinsurance and Western States Insurance Companies), I am very concerned at the prospect of having our employee benefits lose their tax-exempt status.

We have worked for years to develop a package of benefits which would be advantageous to our employees regardless of their job level. These benefits are identical for both men and women and the only ones which are based on salary are our pension plan and the stock ownership plan. We estimate the cost of our benefit plans approximate 35% of our payroll costs, and if they lose their tax-exempt status, a substantial reduction in benefits would be sure to follow. And you can be sure that the loss of any benefits would have a chilling effect on employee morale as well as a negative social impact on them and their families.

1017 Walnut Street | Phone (515) 245-4074 | Des Moines, Iowa 50307

We have seen the government's efforts to provide their versions of benefits, and I am confident that private employers are far more effective and efficient in providing for their employees and dependents. We know first hand what the needs are and we can develop programs to provide those needs at a reasonable cost. But without a tax exemption, certain benefits would have to be shifted to government and the ultimate price is certain to be greater.

And further, we continue to provide a solid benefit program for our retirees. We give liberal pensions upon retirement and we incorporate an annual inflationary adjustment. For those who take early retirement, we offer an excellent medical and life insurance program which continues until they reach age 65, and most early retirees and their families have this coverage at no cost. It would be extremely painful to have to explain a benefit reduction to those retired employees who are relying on us to sustain their current life style.

Should you or a member of the Committee on Finance want any details on our benefit programs or their costs, I would be most pleased to send them to you upon your request.

Sincerely,

Raymond J. Russell
Vice President & Secretary

kf

H.B. Fuller Company
Corporate Headquarters

Please reply to:
3530 North Lexington Avenue
St. Paul, Minnesota 55112
(612) 481-1588

Mr. Roderick A. De Arment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room 219
Washington, D.C. 20510

Dear Mr. De Arment:

H.B. Fuller Company is a publicly-owned manufacturer of chemically-related products.

We employ approximately 1,600 employees in the United States.

We provide a comprehensive benefit program to our employees including:

-- A base hospital/major medical plan that also covers dental benefits;

-- HMO coverage (if employees elect);

-- Basic life insurance which varies by age and includes from one times to four times annual salary;

-- Sick leave and long-term disability coverage of 60% of salary up to $4,000 per month;

-- Pension plan with normal retirement at age 65 and benefits equal to 1.6 of average salary for the first 30 years of service plus 1.1% of final average salary for each additional year less 1.67% of Social Security for each of the first 30 years of service;

-- Thrift plan, which allows employees to contribute up to 6% of pay on a pre-tax basis with the company matching 100% of the first 2% of pay contribution by employees;

-- PAYSOP;

-- Dependent care assistance plan in which employees can have work-related dependent care expenses reimbursed with pre-tax dollars;

-- Vacation bonus plan, which provides an extra two weeks vacation in the tenth, fifteenth, twentieth, etc., years of service and a cash bonus of $800;

-- Miscellaneous benefits such as vacation, holidays, funeral leave, jury duty, etc.

The benefits are provided to <u>all</u> employees. We have no restrictions on covered individuals.

Our benefit programs are well received by employees and contribute to excellent morale, productivity and a very low turnover rate among our employees. (All of these facts are substantiated in attitude surveys completed by the company.)

The introduction of the 401(k) plan feature in the Thrift Plan and the PAYSOP in December, 1983 were extremely well received by employees. Approximately 80% of our employees participate in the Thrift Plan and most of those participating have chosen company stock as an investment option. This illustrates the value of this plan as a long-term savings vehicle (particularly for retirement) and the perceived value of company stock as an investment by employees.

We have particular concern that upcoming benefit legislation in 1985 will provide more restrictions in the types and amounts of benefit coverages that we provide.

We believe the future legislation should be guided by some very basic, yet important principles:

-- Private benefit programs should be supported and guided by benefit legislation. The legislation shouldn't restrict benefits to such a degree that they aren't worth providing or require burdensome and unnecessary administration requirements, which benefits no one.

-- Benefit legislation should be guided by a number of factors in combination, including social and economic objectives. Tax policy should not be the only factor or most important factor guiding benefit legislation.

-- We believe that the vast majority of benefit plans should not be forced to adopt burdensome plan provisions, which are designed to control the small percentage of plans that discriminate.

-- Benefit plans should be allowed to integrate with government benefits (i.e., Social Security) in a manner that allows recognition of benefits from all sources and provides a recognition of the value of government-provided benefits.

-- Benefits legislation should encourage growth of private plans, not encourage termination of plans (as is occurring with pension plans today).

We are committed to maintaining good, well-designed benefit plan coverages for our employees and their families. We sincerely hope that Congress allows us and other employers to meet this important objective.

Sincerely,

Mary Marshall

Mary Marshall
Corporate Personnel Director

GMC

HENDRIX GMC TRUCKS, INC.
P.O. BOX 19363
AUSTIN, TEXAS 78760

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg.-Suite SD-219
Washington, D. C. 20510

RE: TAXATION OF EMPLOYEE BENEFITS HEARINGS TO BE HELD JULY 26, 27 and 30, 1984.

Concerning the upcoming hearings regarding Taxation of Employee Benefits, I would like to offer a positive statement on the value of employee benefit programs.

Hendrix GMC Trucks, Inc., employs 40 people who are provided with health care and life insurance benefits at employer expense. They also have the option of providing dependent coverage at their own expense, at an attractive rate because of our group policy. These benefits are offered to our employees equally, regardless of position, income, or gender, and are essential to the economic security of our workers and their dependents.

Tax incentives for employer-provided fringe benefits affect potential employees' choice of employment, and also provide the employer with a valuable tool to recruit, retain, and reward the most valuable asset he has - his EMPLOYEES.,

Private enterprise has built an effective and efficient arrangement covering the need of employees through the employee benefit system. It is far superior to any government program which could replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met, and unless private enterprise is encourged to meet these needs - then the government must!

Thank you for your consideration of our position.

Sincerely,

Linda Dubelbeis

Linda Dubelbeis, Corp. Secy.
HENDRIX GMC TRUCKS, INC.

HENLEY PAPER COMPANY

Telephone 919/668-0081 Telex 574-453 P.O. Drawer 20408 Greensboro, North Carolina 27420-0408

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

HENLEY PAPER COMPANY

A. Boyden Henley, Jr.
Chief Executive Officer

ABH,Jr./ls

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By:Henley Paper Company
Greensboro, North Carolina

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. If private enterprise is not encouraged to meet its needs, government must. And we believe the ultimate price to our nation will be greater.

The plan sponsored by Henley Paper Company for employees with six months of service has the following features:

1. Funded entirely by Company although voluntary contributions are permitted.

2. No sex discrimination.

3. Participants receive pro rata share of company funding automatically to age 70 and thereafter by approval of the Board of Directors.

4. There is a cap on the amount of compensation considered in the allocation of funding and forfeitures of $75,000.

5. No Social Security or other plan offset (reduction).

Our retirement plan program is a vital part of our benefit package. Without it, former employees who have worked so hard will have financial difficulty in their retirement years. With the supplemental income from our plan, our retirees can maintain their dignity.

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Enclosed please find the written statement of our company, Hibernia National Bank, in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26, 27, and 30, 1984 on the issue of fringe benefits.

Sincerely,

Laura Meisel

Laura W. Meisel
Manager, Compensation and Benefits

Enclosure

STATEMENT OF HIBERNIA NATIONAL BANK IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE COMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS

JULY 26, 27 AND 30, 1984

In connection with the meeting of the Subcommittee on Taxation and Debt Management on the issue of fringe benefits, Hibernia National Bank wishes to express its appreciation for the strong support that Congress has shown toward employer-sponsored benefit plans.

Hibernia employs approximately 1,050 persons in New Orleans, Louisiana and is presently the third largest bank in the state in terms of assets. We were recently recognized as the leading bank in the country in ten-year compound growth of earnings per share. The distinction that Hibernia has achieved is directly attributable to the dedication of its personnel. The Bank's commitment to its employees is reflected in our corporate philosophy -- Success Through People....Pride in Service....the Hibernia Quality.

Our employee benefit program is one of the best means that we have to reward our employees for a job well done. In today's society many of an individual's basic economic security needs are met through participation in employer-sponsored benefit plans. This has developed not only as a result of Congressional efforts favoring these programs but also because of the cost-effectiveness of group purchasing power in areas such as health, life and disability insurances. These group plans reach employees who may not be able to afford coverages on an individual basis.

Employer-sponsored benefit plans have enabled Hibernia to enhance the quality of life for our employees. In turn, we find that individuals freed from the worry of economic security for themselves and their families are

more productive and satisfied. Equally important, legislation that provides tax incentives to employees who contribute to benefit programs are encouraging employees to share in the responsibility for providing benefits for themselves, particularly for their post-retirement years.

The following analysis of our current benefit program reflects its widespread utilization by all levels of employees.

Company Name (Optional) _____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	5,326,343	5595
Legally-Required Employer Payments		
Social Security	1,118,858	1175
Unemployment Compensation	216,403	227
Workers' Compensation	66,649	73
Discretionary Taxable Benefits		
Time Not Worked	2,197,428	2308
Rest Periods	N/A	N/A
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	306,088	467
Capital Accumulation Plans	327,410	753
Disability Plans	79,867	87
Group Health and Life Insurance	951,912	1000
Active Workers	42,598	48
Retirees	9,130	10
Other Tax-Favored Benefits		

Company Name (Optional) _____

TABLE 2

EMPLOYEE BENEFITS PERCENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries	Employer Payments as Percent of all Benefits
Total Benefits	5,326,343	100.0
Legally-Required Employer Payments		
Social Security	5.56	21.0
Unemployment Compensation	1.08	4.1
Workers' Compensation	.33	1.3
Discretionary Taxable Benefits		
Time Not Worked	10.9	41.3
Rest Periods	N/A	N/A
Discretionary Tax-Favored Benefits		
Defined Benefit Pension Plans	1.52	5.7
Capital Accumulation Plans	1.63	6.1
Disability Plans	.40	1.5
Group Health and Life Insurance		
Active Workers	4.70	17.9
Retirees	2.10	.8
Other Tax-Favored Benefits	.04	.2

Company Name (Optional) _____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 19 83

	Defined Benefit				Employer Capital Accumulation				401(k)[3]			
	Participate		Vested[1]		Participate		Vested[2]		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	11	1.6	2	1.5	8	1.4	6	1.2	___	___	___	___
10,000- 19,999	352	53.3	55	42.0	281	50.7	234	48.3	___	___	___	___
20,000- 49,999	261	39.5	65	49.6	233	42.1	212	43.8	___	___	___	___
50,000- 99,999	33	5.0	6	4.5	28	5.0	28	5.8	___	___	___	___
100,000 or more	4	.5	3	2.3	4	.7	4	.8	___	___	___	___
Total	661	100%	131	100%	554	100%	484	100%	___	100%	___	100%

[1]Includes fully vested participants only

[2]Includes partially vested participants

[3]To be implemented 1/1/85

Company Name (Optional) _____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1983

	Number of Employees		Utilization			
			Employee		Dependent	
	#	%	#	%	#	%
$0-$ 9,999	51	5.3	47	5.1	11	3.3
10,000- 19,999	549	57.7	534	57.4	234	71.1
20,000- 49,999	315	33.1	312	33.5	51	15.5
50,000- 99,999	33	3.5	33	3.5	29	8.8
100,000 or more	4	.4	4	.4	4	1.2
Total	952	100%	930	100%	329	100%

*Note high utilization among the lower-paid income groups.

Company Name (Optional) _____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# 100	$ 183,067.92	1983
Defined Benefit Plan Retirees Survivors In Pay Status	# 13	$ 19,938.60	1983
Defined Benefit Plan Vested Separated	# 89	N/A	1983
Capital Accumulation Plan Retirement Age Distributions	# 0	$ 0	1983
Capital Accumulation Plan Termination Distributions	# 84	$ 238,886.00	1983
Retiree Health	# 88	$ 14,857.92	1983
Retiree Life	# 88	$ 27,741.06	1983

Because we are a profit-motivated firm, Hibernia must also be concerned with the expense of employee benefits. Therefore, we are always searching for ways to maintain and/or improve our present benefit levels by the most cost effective means. Congressional action to establish the benefit vehicle known as flexible benefits has answered a variety of needs from both the employer and employee viewpoints. Hibernia will initiate a flexible benefit plan in early 1985.

For our employees, flexible benefits will allow them to tailor programs to their individual needs, increasing coverage where needed and decreasing or eliminating duplicate or unnecessary benefits. New benefits, such as childcare and excess medical expense reimbursements, will now be available to employees on a cost-effective basis. These benefits are particularly important to employee groups such as single parents and working mothers. For the employer, this program will assure us that we are spending our benefit dollars in the most efficient ways possible. We will no longer pay for benefits that are not needed or used.

Flexible plans also give the employee a much greater degree of control over his or her economic security. Inherent in this is the fact that employees will become more aware of the cost of the benefits they enjoy. This knowledge will be enhanced by programs designed to educate the employee on how to be a cost-conscious benefit consumer particularly in the areas of medical and dental coverage.

In summary, Hibernia feels that we are representative of a large number of employees who are concerned about providing all employees with an amount of benefits that ensures an adequate level of economic security for them and their families. Tax legislation passed in recent years has greatly aided employers in this effort. Without it, Hibernia and other employers would undoubtedly be unable to provide the level of benefits currently available to employees.

The success of employee benefit programs has been, and will continue to be, a joint effort among government, employers and employees. Hibernia appreciates the actions of Congress that have enabled us to provide these benefits to help our employees meet their needs for economic security in competitive and cost effective ways.

August 13, 1984

Mr. Roderick A. DeArment, Chief Counsel,
Committee on Finance, Room 219,
Dirksen Office Building
Washington, D.C. 20510

Dear Sir:

I would like to go on record stating my support for maintaining the present tax favored status for employer contributions to employee benefit plans. As a member of Laborers' Local 157, and manager of our benefit funds, the outcome of your hearings will affect our membership and me.

According to the Mandel Group, Inc.,"about 72% of employee medical care and pension benefits go to persons who earn less than $25,000.00". It seems to me that once again, government is trying to squeeze every drop out of the average working person.

Sincerely,

Timothy Higgins

Timothy Higgins

DRS. HILL & THOMAS
3355 RICHMOND ROAD
BEACHWOOD, OHIO 44122

GEORGE L. SACKETT, JR., M.D.
KEITH R. IRISH, M.D.
JAMES P. FARMER, M.D.
BEN F. JACKSON, M.D.
CARL J. FERBER, M.D.
JAMES J. RODA, M.D.
RICHARD L. KING, M.D.
S. BRUCE DeVILLE, M.D.
BELA F. BALLO, M.D.
VICTOR J. DeMARCO, M.D.
CHARLES J. DOYLE, M.D.
ROBERT J. LAZAROW, M.D.
HOWARD J. KLEIN, M.D.
GLENN F. SYKORA, M.D.
JOHN N. HOLYLAND, M.D.
ROBERT P. JACOBSON, M.D.
EUGENE A. WHITE, M.D.
FRANCIS A. GRECIUS, JR., M.D.

JAMES E. LALAK, M.D.
RIAZ A. TARAR, M.D.
WALTER L. GEORGE, JR., M.D.
A. MERVYN THYNNE, M.D.
RAMESH KILARU, M.D.
BRUCE H. ROBSON, M.D.
SEYED A. BAGHERY, M.D.
HASOON LEE, M.D.
ERIC VON BAEYER, M.D.
JUERGEN L. SCHAPIRO, M.D.
HARRY GAZELLE, M.D.
CLEMENT HOH, M.D.
WILLIAM K. BISHOP, M.D.
JAMES A. PATTERSON, M.D.
CRAIG R. IRISH, M.D.
SUSAN M. GELETKA, M.D.
RONALD A SWIK, M.D.
SHARDUL D. VIBHAKAR, M.D.

C. DANIEL GROTH, ADMINISTRATOR

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Respectfully,

Frank A. Aquino
Assistant Administrator

FAA:mm
Enc.

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Drs. Hill & Thomas Co., 3355 Richmond Road, Beachwood, Ohio 44122.

With respect to our Profit Sharing Plan, we have liberalized requirements for participation in the plan by reducing the number of hours worked to qualify to 1,000 hours in a plan year with no requirement for a waiting period. Additionally, we have always made the maximum contribution to the plan for each employee for every year of its existence.

With respect to the Defined Benefit Pension Plan, we have reduced qualification to participate to 1,000 hours per plan year, reduced vesting time to six years to attain full vesting, reduced normal retirement and early retirement ages to 62 and 55 respectfully, eliminated coordination of benefits with Social Security, and provided for a joint survivor benefit in the event of death of one of our participants.

Additionally, we are not a super top-heavy or top-heavy group. Most of our employees are women. The actuarial assumptions incorporate a 5% inflation rate and that rate is adjusted and evaluated periodically for comparability to real conditions.

The Profit Sharing/Pension Plans allow us to reward and provide our employees for their loyalty and service through a mechanism which provides benefits for them into the future. Our plans are superior to plans in large companies which require lengthy vesting schedules and coordination with Social Security that produce insignificant monetary reward or forfeiture/disqualification of benefits. Recent federal legislation has made it impractical to disband these plans so that benefits may inure to key employees, shareholders or owners.

These plans provide a mechanism for our employees to provide additionally to their retirement through voluntary contributions; and provide a strong incentive for the recruitment and retainment of key technical employees.

Without the tax incentive (deductible deposits), the private sector would surely lose their Qualified Plans, take larger bonuses, and benefit no one but the owners. Few would continue to provide pension plans to their employees unless required to do so by Union contract. As the Social Security tax becomes more burdensome, the pressure to cancel Pension and Profit Sharing Plans increases even now while they are deductible. The tendency to cancel all plans would certainly increase dramatically if deposits were not deductible.

The private sector provides a substantial benefit to large numbers of employees that would not have a supplement to Social Security without the support from private industry. It is necessary that the private sector provide a substantial amount of the total income for retirement. If people did not have the private sector supplement for their retirement, they would have to continue working (postponing payouts from Social Security) and they would continue to pay taxes.

case

HUNT
TRACTOR & EQUIPMENT CO., INC.
1000 East Market Street – Louisville, Kentucky – 502 • 584-9753
Highway 62 – Clarkson, Kentucky – 502 • 242-2461

Poclain

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Copies are being forwarded also to Kentucky and Indiana Senators and to our appropriate Representatives.

Thank you for your assistance.

Sincerely,

Roy H. Hunt

Roy H. Hunt

The attached statement

is

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30, 1984 by the U.S. Finance Committee, Subcommittee on Taxation and Debt. Management.

By Roy H. Hunt
Hunt Tractor & Equipment Co., Inc.
1000 E. Market
Louisville, KY 40206

Hunt Tractor & Equipment Co., Inc.
1000 E. Market Street
Louisville, KY 40206

August 6, 1984

It has come to my attention that Senator Packwood has scheduled hearings in late August, 1984 which seek to essentially terminate the private employee benefit plan system in private industry.

His contentions are founded on the following assumptions:

1) Serves no useful social or economic purpose
2) Primarily benefits highly paid employees
3) Would survive absent tax incentives
4) Should be eliminated in favor of IRAs and IRA type vehicles
5) Could be eliminated without any adverse impact on the Social Security System, and
6) Has no "grass roots" support.

Mr. Packwood is laboring under some serious misapprehensions. Comments are offered each of his aforestated premises:

1) Not knowing the Senator's criterion for "useful", I submit that pension funds in the private sector at this time offer the only reliable source of income available for the post-retirement worker. He or she certainly cannot rely on the near-bankrupt social security system. Economically, or financially, private pension funds provide the capital to keep both the deficit ridden government and the wheels of industry moving.

2) Our company is a small business with 40 + employees. Initated in 1966 our plan now fully vests 21 employees whose shares are equitably proportionate to owners or employees. Mr. Packwood seeks to equate all pension plans to the corrupt and greedy practices of large organized labor organizations.

3) There is no way that the private sector could sustain contributions to its pension funds without the tax deductibility. In the private sector the funds contributed are paid irrevocably to a trustee. They are not available to the employer subsequent to that act. They are not susceptible to the mismanagement and misapplication by congressional acts and bureaucratic administration.

4) Mr. Packwood appears to be uninformed about and unfamiliar with private sector plans. Most employers contribute to pension funds with optional participation by the employee. IRA's require initiation by the individual even when acquired through payroll deduction, a free service offered by many firms. IRA's offer a worthy supplementary opportunity for individual savings. They will not supplant pension plans.

5) The Social Security System has deteriorated into an encumbent political action fund. Those of us who are still working and investing in our own small businesses maintain little confidence in the program. Our only alternative and confidence lies in our own private plans. Working citizens of the USA cannot afford the Social Security Program. Retirement funds must be kept beyond the reach of congressional and bureaucratic tentacles.

6) This premise is so unfounded and is undeserving to merit even a comment.

As a businessman who has survived some 40 years, I have a problem comprehending the mentality that could initate the 6 premises enumerated. Accordingly, the opportunity to testify on this issue would be appreciated.

HUNTER MARINE TRANSPORT, INC.
BARGE TRANSPORTATION AND BARGE TERMINALS
P. O. BOX 90025 • NASHVILLE, TENNESSEE 37209 • 615 352-6935

July 31, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SO-219
Washington, D. C. 20510

Taxation of Employee Benefits
Hearings July 26, 27, 30, 1984

Dear Sir:

Hunter Marine Transport, Inc. is a small privately held corporation loacated in Nashville, Tennessee. The company employs approximately forty-five individuals participating in the shipment of interstate commerce on the nations island waterways.

Our benefit package entails health and life insurance cost sharing. It is available to all employees and is not reserved for any specific classification of employee and it is available to both men and women.

It is our feeling that this benefit is important to the total compensation package of all employees. We believe that the development of a sound employee benefit program provides for the economic security not only of the worker, but of their dependants.

We believe private industry must develop an effective and efficient arrangement based upon the uniqueness of its company and employees. This system has worked well and is far superior to any government program which would replace it.

The need to provide these benefits to our employees is apparent. Either private industry or the government must

provide these benefits. We believe our current system is superior and should not be systematically dismantled in the name of greater tax revenues.

Sincerely,

HUNTER MARINE TRANSPORT, INC.

Jerome C. Schmidt,
Personnel Manager

JCS:pm

STATEMENT OF HUTCHISON AND ASSOCIATES, INC.
IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT
ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, AND 30, 1984

Hutchison and Associates, Inc. is a small, regional service organization consisting of twenty-six employees. It is located in North Carolina and is one of the major providers of employee benefit consulting services to the small and medium-sized companies that make up the bulk of employment in a three to four state area that is primarily served by the organization. Although we are engaged in providing employee benefit consulting services, our comments pertain primarily to our own organization and what benefits have meant to us and to our employees.

Our organization is largely female and young. The exact make-up is as follows:

Age Group	Male	Female	Total
Under age 40	8	9	17
Over age 40	2	7	9
TOTAL	10	16	26

As you can see from the above figures, females make up 61.5% of our total employment and younger employees make up 65.3%. These are two of the critical groups that will be affected by any change in the philosophy and practice of providing employee benefits as has been done in the past.

Turning to benefits provided by our organization for these employees, we have a well-rounded benefit program made up as follows:

1. Health Insurance - This is a basic daily room and board plan equal to a semi-private room for the first 70 days supplemented by a major medical plan which the employee pays a deductible of $100 and the plan pays 80% of the expenses in excess of this up to $1,000,000. Outpatient treatment is reimbursed in full. The cost of this program is $61.37 for the employee which is paid in full by the company and $104.87 for members of the family (spouse and all children) which is paid by the employee by payroll deduction.

2. Life Insurance - Our basic life insurance is one times annual salary which is paid for in full by the company. The employee, at a cost of $1.05 per month, can cover a spouse and all children under age 22 for up to $2,500 of coverage each. This is handled on a payroll deduction basis.

3. Disability - Our sick leave policy is on an individual facts and circumstances basis whereby the employee receives full pay for occasional absences. In the case of more serious illness, no payment is made for the first 30 days, but our short-term disability picks up at that point and pays 60% of pay up to a maximum of $300 per week until the end of six months. This is paid for in full by the company. After six months, our long-term disability insurance picks up and pays 60% of pay up to a maximum of $3,000 per month. This, too, is paid for in full by the company.

4. Retirement - Because our organization is essentially a young organization, some years ago we terminated an individual policy defined benefit pension plan and rolled this money over into our profit sharing plan. The profit sharing itself was amended in 1980 to become a cash/deferred profit sharing plan. Our targeted goal for contributions to this plan is 10%, which we have made in most of the recent years. Of this amount, approximately one month prior to the end of the year the employee has the option of taking one-third in cash or deferring it. If he elects to defer it, it is 100% vested and available immediately to him with any subsequent termination of employment. This benefit, on projections performed by our actuary, would produce, based upon our targeted contribution and our historical rate of earnings, a final average pay pension benefit of approximately 2 3/4% to 3% for each year of service the employee has with our company.

5. Other Benefits - Vacation ranges from two weeks for employees with five or less years of service, graduated up to three weeks for employees with ten or more years of service. Sick leave is on an individual basis with payment made in full for occasional absences and our disability insurance covering the longer, more extended absences. Excluding those benefits that are part of our regular payroll structure such as vacation, sick leave, etc., and further excluding those that are government mandated benefits such as social security, unemployment insurance, and workmen's compensation, our total percentage of payroll costs for benefits for 1983 was 12.1%.

6. In Summary - We have covered the main areas of concern of our employees and feel that we are doing so in a reasonable and cost-effective manner. We have not gone overboard on benefits, but, on the other hand, feel that the ones that we provide are absolutely essential and that, in order to insure full participation of our young, female employees, it is essential that the company provide these on a mandatory basis as a cost of doing business. There being a deductible expense justifies to the company their being provided in this manner.

Benefits, in our opinion, are essential to the economic well-being and financial health of our employees. Even as small as we are, we've had a number of financial catastrophes that have been avoided due to our well-rounded benefit program. Let me outline a few of these to illustrate my point:

Case 1 A staff member in his early fifties with a non-working wife and a son who was finishing an engineering degree in an out-of-state school. In November of 1978, he came up with a medical problem on which there was difficulty of getting an exact diagnosis. In December, it was discovered that he had cancer of the stomach. After a very short illness in which he was out from work on a continuous basis, he died in April of 1979. He had medical bills of $25,000 plus, of which our group insurance paid all but $2,000. Our disability plan paid him 60% of the income up until his death. At death, our group life insurance and profit sharing plans paid benefits which practically doubled the net estate,

exclusive of the home, that he left to his widow. While the loss was a traumatic one to the company and to his family, his son was, nevertheless, able to finish his college training and graduated with honors two years later. His widow was able to retain the homeplace in one of our better subdivisions and eventually went back to work after a suitable adjustment period made possible by the benefits received from the company.

Case 2 A young staff member in his early thirties. Expecting a second child; however, discovered late in the pregnancy that his wife was going to have twins. Wife had to have special care, including early admission to the hospital thirty days before the delivery. The total cost to the young couple was $6,500, of which our group insurance paid $6,000, leaving a reasonable and manageable sum to be paid by the young couple. It would have been a financial disaster without our benefit program.

Case 3 An older staff member in his fifties discovered that he had cataracts, which was subsequently followed by detached retina. There were three separate admissions to the hospital in connection with the above. This was the first hospital confinement that the employee had had since his early thirties when he was confined for two to three days for an appendectomy, and yet he had been paying health insurance premiums all these years. Suddenly, as a result of the foregoing, there was $10,000 to $15,000 of cost of which group coverage paid all but $1,000 to $2,000.

It is highly doubtful that this employee would have set aside the equivalent of his premiums in a savings account to cover a medical catastrophe of this sort. However, he had car- ried group insurance all these years, and the group stepped in at the critical moment to spread the risk out among a much larger membership.

Case 4 A staff member in his forties. Married with three children, the oldest of whom was a daughter in her junior year in college. She went back to school in September and in a physical examination discovered a lump in her shoulder. She was diagnosed as Hodgkin's Disease. She was admitted to Duke Cancer Clinic. Treatment lasted over the greater period of a year. The total costs came to over $20,000, of which only $1,000 to $2,000 was paid for by the staff member. Her Hodgkin's Disease fortunately is now in remission; the daughter has married and is carrying on successfully a business career.

Case 5 Another young staff member whose wife had had several miscarriages. Finally, she had to receive specialized help from the medical center at the University of North Carolina, and a very healthy and strong baby was delivered. However, the special care resulted in bills of close to $10,000, of which less than $1,000 was paid by the young staff member. They had just built a new home and his wife had had to stop work because of the pregnancy.

While this might have been manageable under normal circumstances, it was impossible under the foregoing circums- tances and our benefit programs solved the problem.

Case 6 A young female staff member in our computer department. Expecting her first baby. Husband is in employment not covered by health insurance. His wife covers him as a dependent of her coverage with our company. They are expecting to deliver in November of 1984, and the delivery bill will probably run in the $2,000 to $3,000 area. Her husband was planning to go back to Seminary to obtain theological training and enter into the ministry, and the young lady was to leave our organization this past June for this reason. However, they have modified their plans for her to remain on until the baby is delivered so that they can have our company group coverage of expenses, which would otherwise set back the plans of going back to school, if not totally eliminate the plans due to the necessity of paying these maternity costs.

Case 7 A young woman in her early thirties. Married and no children. Had extensive surgical and medical problems lasting over a period of two years. The bills ran into many thousands of dollars which were covered by our medical insurance. She was subsequently restored to full health and is carrying on a successful career, although no longer with our organization. Our group insurance was instrumental in handling these problems which came simultaneously with heavy medical expenses for aging parents.

Based upon the foregoing experience with the employees of our own company, you can draw several conclusions:

1. Our buying power as a company makes possible group rates that make adequate benefits affordable, both to the employee and to the company.

2. Tax deductibility encourages the company to provide a full range of benefits to their employees as part of its compensation package.

3. Our employees, because of their young age and demands on income, would probably not be able to afford, even if the full range of benefits were available on an individual basis, the higher rates called for by individual underwriting of such benefits. (In the early days when we were too small for true group coverages, we did indeed experience this problem with attempting to obtain full protection in all these areas and the extremely high costs that were involved when protection was available.)

4. The seven case histories outlined above indicate financial catastrophes that were avoided in a small organization such as ours. Without our benefit program which was provided because of the lower group rates and the tax deductibility to the company for sponsoring such programs, employees would have incurred burdensome debts and worries and their morale and hence effectiveness as members of our

staff would have been severely affected. (We see this happening with regularity on a day-to-day basis in other companies our size and larger whom we serve as consultants and know that we are not an isolated instance in this respect.)

5. Our company and top management has for a long time felt that we need a dramatic change in the tax structure of the country such as the flat tax rate and other measures now being considered in Congress. We have also recognized that in achieving this that it is going to be necessary to eliminate preferences and special treatment in many areas in order to get a broader base which will permit a lower rate of tax and thus bring tax relief to the personal and corporate taxpayers of the country (we also strongly feel that we need to cut down on expenditures and bring the budget of the country in line with its expenditures; in short, have a balanced budget).

6. In connection with the foregoing, we have recognized that all segments of the economy must bear their share of the burden of making the change. However, the longstanding practice of providing benefits as a part of total compensation which has been built into the employee practices of American business and is built into employee's planning for his own future should not be thrown out under the proverbial "baby with the bathwater". In lieu thereof, benefits should be reviewed to make sure that socio-economic purposes are being met, that coverages are provided in a fair and equitable manner (which

the present regulations and underwriting rules assure) and that a reasonable limit be put on dollars that can be sheltered in this manner. Part of this permitted practice should be to allow the employee on a pre-tax basis to share with the employer (tax deductible costs) and the government (through tax expenditures on permitted deductions) in providing such benefits. In this way the original concept of Social Security as a three-legged stool of employer-employee-government would be achieved in the total benefit package and such package would be an integral part of the total compensation provided to every employee.

7. The foregoing is particularly appropos today when any change of tax policy with respect to benefits would force the employee to turn to the federal government. It has been proved that the government's provision for life insurance during World War I and II could have been on a more economical basis through the private sector; the provision for retirement, death, and disability through Social Security has been in deep trouble; the Federal Civil Service program is currently undergoing dramatic revision because of runaway costs in the old program. It has been clearly demonstrated that the government is not the most cost effective method of providing benefits and that private sector can do so in a much more efficient and economical manner than the government. However, to do so, it does need the encouragement of the tax incentives of deductibility and to the company and tax exemption to the employee. If it is to be a government policy

to assist its citizens in providing for the major contingencies of their life, which are retirement, death, disability, and catastrophic health problems, then this policy can be best achieved through the private sector with the encouragement of the government through tax-favored treatment.

STATEMENT OF THE

INDEPENDENT FEDERATION OF FLIGHT ATTENDANTS

INDEPENDENT UNION OF FLIGHT ATTENDANTS

AND

ASSOCIATION OF PROFESSIONAL FLIGHT ATTENDANTS

FOR THE RECORD OF THE

JULY 26, 27 AND 30, 1984

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

HEARING ON FRINGE BENEFITS

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to present to you the views of these flight attendant unions regarding the tax policy issues surrounding fringe benefits.

We oppose the recent proposals to make fringe benefits, such as health care programs and child care assistance programs, or any part thereof, taxable. It is our view that the policy behind the original nontaxation of fringe benefits remains an important goal which should be encouraged, not abandoned. Moreover, the recent tax proposal for taxing certain fringe benefits for the purpose of raising revenue to reduce deficits carries with it a dangerous precedent for taxing all fringe benefits in the future, as well

as other tax favored programs on which the same social policy rests.

I. TAX LAWS SHOULD CONTINUE TO ENCOURAGE THE EMPLOYER TO PROVIDE FRINGE BENEFITS.

Nontaxation of fringe benefits was founded on a policy to encourage employer provision of fringe benefits to employees. The need for that encouragement continues.

Currently, an employer can provide such fringe benefits as pension plans, health care plans, medical reimbursement plans, life insurance and accidental death and disability insurance up to prescribed amounts, group legal services, and cafeteria plans without payment of the employer's contribution to social security and unemployment compensation insurance. The employee, in turn, pays no taxes on these benefits, the only exception being that he/she is taxed on pension benefits when they are drawn after retirement.

Recent tax proposals have ranged from eliminating nontaxation of certain benefits to placing caps on the amount that is nontaxable. No one doubts that these schemes will generate revenue. Unfortunately, they will do so at the expense of the necessary encouragement which promotes employer establishment of

such programs. Without such encouragement, employers will not provide the benefits, employees won't or can't purchase the benefits even if available, and government will eventually be forced to bear the costs of such programs.

The ramifications of tax proposals to put caps on the amount of health care insurance and child care assistance that can be provided by an employer without taxation is a good example of why tax incentives to encourage employers to provide such benefits should not be abandoned for the less altruistic purpose of putting "bucks in the koffers".

With regard to health insurance, it has often been said that a healthy worker is a happy worker. Productivity depends on the health of the employees of this nation. If caps are placed on the amount of health insurance that an employer can provide to an employee without taxation, there will be no incentive whatsoever for an employer to provide more. If the employee must purchase more coverage independently, or has an option under the employer's plan to elect more at the expense of taxation, he will not or cannot do so. If employees had purchased, or had had the resources to purchase, health insurance at the time Congress first made such employer programs nontaxable,

the need for encouraging employers to provide such programs would not have existed. And since Congress first made employer plans nontaxable, health care costs have risen rapidly. Many employees couldn't begin to afford to purchase outside coverage. In the alternative, if additional insurance above the cap is offered through the employer, albeit taxable, many employees will or must opt to take the cash. In the end, the productivity of this nation will depend upon employees getting only so sick. Otherwise, the employer's plan won't cover their illness and many employees will not or can't pay for it or will not seek treatment. The increase in revenues generated by taxing medical insurance benefits may be jeopardized by a reduced productivity caused by a nation of workers who could not stay as healthy as soaring medical costs and budget deficits demand.

Child care assistance benefits provide another example of the detrimental effect such tax proposals would generate on both the economy and the social policy fostered by the current nontaxation of such benefits. Today women solidly occupy a place in the work force. They comprise a significant percentage of the employees of this nation. The ability of many of them to work outside the home is directly related to

employer provision of child assistance programs. Without tax incentives to do so, employers will not provide this benefit. Some working mothers will not be able to afford purchasing their own child care assistance. If the employer continued to offer such a program, though taxable, the after-tax dollars may not make it profitable for some working mothers to continue employment. This becomes a serious problem in the one-income family where the woman is the only adult member. Many of the poor of this nation are just such families. There has been an increasing effort to assist these women in getting into the work force. This goal will be completely frustrated by these tax proposals. Moreover, the revenues generated by taxation of child care assistance programs will be attended by a reduction in the work force and in an increase in the number of families dependent on AFDC and other health and welfare programs which will have to pick up the tab when it no longer becomes profitable or possible for the mother to work outside the home.

The above two examples only begin to address the adverse effect of abandoning the tax incentives which encourage employers to provide fringe benefits to employees. The impact on the ability of many employees to pursue an education by means of tuition

reimbursement programs presents the same risk of the government, as the saying goes, "cutting off its nose to spite its face". It is to the government's benefit in the long run that employers remain encouraged to provide such fringe benefits to their employees. If not, the future may bring increased revenues only to pay them right back out in government programs to fill the gap or in a reduced productivity and ability of some employees to enter into or remain in the work force.

II. A CAP OR ANY OTHER TAXATION OF FRINGE BENEFITS, SUCH AS HEALTH AND CHILD CARE, BEGINS A DANGEROUS PRECEDENT OF A "REVENUE FIRST, PEOPLE LAST" POLICY WHICH COULD AFFECT OTHER FRINGE BENEFIT PROGRAMS AND OTHER TAX FAVORED PROGRAMS.

Once the tax incentives for employer provision of fringe benefits begins to be displaced by caps or complete taxation of certain benefits, the "revenue first" philosophy has begun its downhill erosion into the pocketbooks of employees, many of whom cannot afford to be the bank from whom the government obtains its funds to pay for its deficits. The talk was of taxing educational assistance programs, then health care, then child care, then other similar important benefits. The domino effect begins.

Are pensions next? After taxing health care benefits, does the government then decide that since the health of the nation's workers is not as important as generating revenues, then neither is their income security on retirement? Social security already has its headaches without burdening that fund with those employees who either wouldn't or couldn't prepare for their retirement future absent employer-provided pension benefit programs.

In addition, other non-fringe benefit tax favored programs become the targets for this "revenue first, people last" policy. After taxing fringe benefits such as child care programs, do we then decide we can generate even more revenues by eliminating the deduction taxpayers currently are allowed for child care costs which they pay in order to work? Not only may other tax favored programs be affected, but goals peculiar to certain tax incentives, such as providing an opportunity for women to take their place in the work force and getting the adult member of the one-income family dependent on government aid programs out into the work force, have been forgotten entirely in the great haste to find ways to reduce deficits.

The policy on which nontaxation of fringe benefits was based should not be pushed aside in this hasty

attempt to produce more revenues through taxation. The needs leading to this policy are still there. Nor does taxing fringe benefits necessarily accomplish the goal of providing revenue to meet deficits if government, in the long run, will be pressured to fill the shoes of the employers who no longer have the necessary incentive to offer health care, child care, or other fringe benefit programs to their employees. Existing tax incentives to provide fringe benefits may have their shortfalls, but the health and welfare of the employees of this nation is dependent on such programs. Of the three groups from which these benefits could be provided -- employers, employees and government -- the best possible choice of provider is the employer. The employee either would or could not do so; and if these programs are not provided by the employer, the government cannot be expected to financially fill the gap.

Fringe benefit programs that promote the health and welfare of the nation's workers is a policy that deserves a second look before haphazardly sacrificing it to the "golden calf" of deficit reduction. Currently the employer provision of fringe benefits is the only game in town. If Congress begins whittling away the incentives for employers to provide such

benefits, the game will be lost, and the loss in the end will be the government's.

Respectfully submitted,

Mary Ellen Miller
Independent Federation
of Flight Attendants
On Behalf Of The
Coalition Of Flight
Attendant Unions

INDEPENDENT
INSURANCE
AGENTS
OF NORTH CAROLINA, INC.
P. O. BOX 10097 • RALEIGH, N. C. 27605
TELEPHONE 919/828-4371

YOUR Independent Insurance AGENT SERVES YOU FIRST

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, D.C.

Dear Mr. DeArment,

This is in regard to the Senate Finance Subcommittee on Taxation and Debt Management public hearing to be held on July 26, 27 and 30, 1984, dealing with the issue of employee fringe benefits.

The ability to attract and retain the quality employees that are essential to provide the level of service our membership demands, requires that we as an employer provide a compensation package that is competative and a work enviornment that meets the needs of our employees. The employee benefit program provided by the Assoicaition is a vital key in our success in building the employee team that we have now and will have in the future.

Our employee benefit program is essential to the economic security of our employees, retirees, and their dependents and we strongly believe that these benefits, which are provided to all of our employees, are far superior to a benefit program that would be designed and provided by a government program. We urge this committee not to do anything that would discourage private employers, like the IIANC, from providing these benefit programs.

Sincerely,

RB Brantley

Richard Brantley
Executive Vice President

cc: Senator Jessee Helms
Senator John East

Information Management Services, Inc. • 6110 Executive Boulevard • Suite 310 • Rockville, Maryland 20852 • (301) 984-3445

IMS

July 26, 1984

Mr. Roderick A. De Armant
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Mr. De Armant:

We understand the Senate Finance Subcommittee on Taxation and Debt Management will be conducting hearings on July 26, 27, and 30, 1984 on the subject of taxation of employee benefits.

Our firm, Information Management Services, Inc. is a small business dedicated to the support of cancer research. Our professionals are computer programmers, systems analysts, and biostatisticians, all of whom are in high demand in the federal and private sectors of employment.

To attract and retain young, capable people, we have instituted a company health plan which is included in our employee benefit package. Allocations to the health plan are strictly according to salary and are, therefore, completely impartial with regard to sex or position in the firm.

Since most of our staff are under 35 years old, we believe we should do all we can to encourage our people to have major medical health insurance since the natural tendency of young people is to believe they are immortal or indestructible. Major medical insurance is not completely paid for by our firm, but a high enough percentage is paid so that the plan is extremely attractive to new employees. Without this coverage it would be highly likely that if one of our younger employees became ill, they would have to rely on government support to defray expenses.

Consider this example:

If we hire a young systems analyst at $22,000 per year, our firm will make available $660 for major medical insurance. This amount is close to adequate to pay for premiums under our current plan. All the employee must do is register, and he (and we) are protected. If the health premium were taxed, it would probably cost the employee another $220 from his pocket. And our young analyst will very likely take his or her changes on not getting a $220 medical bill. Of course, in the event of a serious illness, protection will have to come from the employee's family or even the community.

Our firm and the current law encourage people to care for themselves through insurance protection. If this encouragement is withdrawn through taxation of the health benefit, we will simply have another group looking to the Federal government for help with medical bills when they get into trouble. I am terrified when I think of us taxpayers getting involved with picking up the tab for any medical expenses on exposure we don't have now. And if people don't care for themselves, the taxpayer will be exposed.

In so far as the Federal government setting up and funding such a program with taxpayer revenue goes, look at the Social Security program. We do not need another one of those!

Sincerely,

William H. Lake, Ph.D.
President

INSTITUTE FOR THE STUDY AND ENCOURAGEMENT
OF COMMON SENSE ECONOMICS

Statement of Grant Sykes Before The United States Senate Committee on Finance, DS 219 Dirksen Bldg. July 26, 1984

The Taxation of Fringe Benefits

Gentlemen, it gives me pleasure to present the views of the Institute on the issue of Fringe Benefits.

Turning to question (1) Should the tax law encourage employers to provide fringe benefits, and if so; which benefits and what type of tax incentive is appropriate?

Our answer is a qualified Yes, the tax law should encourage employers to provide fringe benefits. The appropriate tax incentive is to permit employers to expense any benefit of a type, which if paid for by the employee directly, ought to be a tax deductible item. Hence, medical and hospital costs, educational benefits including scholarships, tuition and books, fraternity or dormitory housing, burial allowances, etc., all should be treated as expenses of the business. Other items such as subsidies for the operation of a cafeteria should be encouraged if the objective is to reduce the cost of noon cafeteria meals to a level approximating that of home prepared meals.

There should be restrictions, however. Some fringe benefits are more in the nature of a payment of a company dividend to its officers and employees. Such fringe items consist of high cost restaurant meals, company yachts and limousines, jets, vacation travel and lodging, entertainment expenditures, etc.

39-707 O - 85 - 52

Here the possibility for abuse is considerable. How can abuse be prevented? The answer is easy. The Federal Government allows its civilian and military employees a per diem payment while traveling on official business - the same per diem allowances should be allowed all company employees, tax free. But, no more. As for general entertainment and promotional disbursements, a fixed percentage credit against tax for advertising and promotion should be allowed, perhaps 3% of gross revenue. For restaurant meals and the like, a fixed percent of total payroll costs should be allowed as a tax credit to cover reasonable and customary charges for such items. If the company chooses to exceed reasonable and customary expenditures, the excess should be treated as a dividend to the employees and the company should pay tax on the excess; the same as if it had paid a dividend to its employees. However, the tax should be paid only by the business, not also by the employee. We do not endorse double taxation of dividends.

Critics may protest that companies paying ample fringe benefits for employees will be able to obtain the best employees making it necessary for small and depressed businesses to pay higher salaries to retain good employees.

So what! A company that provides comprehensive health care and educational benefits for its employees reduces the need for municipal and public welfare agencies to provide such services out of tax paid funds. These companies deserve to be rewarded for taking a burden off government in areas into which the government never should have ventured in the first place.

I hope these comments will prove helpful.

STATEMENT OF INTERCONTINENTAL HOTELS CORPORATION IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26, 27, and 30, 1984.

At Intercontinental Hotels Corporation (IHC) we endeavor to provide hotel employees with comprehensive protection through benefit programs. IHC, which operates hotels in 47 countries, is active in the U.S.

The U.S. hotels operated by IHC have over 4,000 employees and this number is likely to increase as new hotels are opened. Currently, all employees from the hotel Manager to the maids and bell hops are eligible for the same coverage which includes Basic Hospital, Surgical, Medical Coverage, Prescription Drug Benefits; Major Medical; Dental and Vision Care Benefits; as well as Life Insurance and a Defined Benefit Pension Plan. The employing hotel pays the full cost for the Life Insurance and the pension plan; the employee makes a nominal contribution for the extensive health care package.

In the U.S. hotels, the majority of the employees, of which over 50 percent are female, have base annual wages of less than $10,000 per year. These hotels provide employment for a large number of unskilled workers and give them on-the-job training.

We believe that particularly within this compensation structure, benefits contribute to the economic well being of the employees, who are unable to set aside sufficient savings to cover medical

costs, life insurance and retirement. Moreover, the price of adequate individual insurance is prohibitive, if, in fact, it is obtainable; on the other hand a large employer is able to obtain volume discounts and favorable rates. These factors, together with tax incentives permitted by existing law, permit important employee benefits to be provided at an affordable price. Changes in the tax law which would increase employee benefit costs would diminish or eliminate the present level of benefits for hotel employees; this, in turn, could impose an increased social welfare burden on the state.

Although we believe the medical, life and retirement benefits are essential, we are aware of the escalating costs of medical care --- premium rates are directly related to claim payments. Therefore, we are currently reviewing our present plans as well as new programs in order to demonstrate to the employees our commitment to cost containment.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to state our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the United States social policy. In our view, the Internal Revenue code provisions which provide incentives to employers and employees who commit resources for employee medical benefits, life insurance and retirement plans should not be changed.

THE INVESTMENT COUNSEL COMPANY
56 EAST PINE STREET
ORLANDO, FLORIDA 32801
(305) 841-6241

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

John P. Meehan
President

JPM:tlg

Enclosure

THE INVESTMENT COUNSEL COMPANY

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Sub-committee on Taxation and Debt Management.

By: The Investment Counsel Company

The existence and health of the private pension system is essential to funding wealth to retired workers.

Many government systems, including, and most visibly, the social-security system are defective insofar as they impose on young workers the burden of support of the retired non-working population. The liabilities of these systems are growing faster than their assets. Some have no assets. They rely on the power to tax. The "pay-as-you-go" process inherent in these systems will impose an increasingly onerous burden on society as the ratio of the old, non-working population grows larger relative to the younger, working population. Finally, the burden will become intolerable. No amount of taxing power will solve the problem. That will only increase its intolerability.

Unless Government recognizes and further sharply incentivizes the existing private-plan structure, future terminal trouble is virtually certain.

Only private funds invested in industry, and unencumbered by taxes, can adequately provide the long-term growth of assets to pay retires.

The record shows (e.g. in Social Security) that the toll of government intervention and concession to budgeting expediencies is too heavy and counterproductive to permit it to spread into the private sector.

The opposite course: increased incentives to fund private systems could serve to raise the U.S. savings rate and thus provide a broader capital base for industrial modernization and economic growth.

We urge Committee members to keep these changes and opportunities keenly in mind as they review the private employee-benefit-plan system.

JPM:tlg

Investor's Mortgage Service Co
841-8044

SIDNEY BENTLEY
SENIOR VICE PRESIDENT
AND TREASURER

IMSCO
MORTGAGE BANKERS
1405 NORTH SAN FERNANDO BLVD.
BURBANK, CALIFORNIA 91504
MAILING ADDRESS: P.O. BOX 2563
LOS ANGELES, CALIFORNIA 90051

July 23, 1984

Senator Robert Packwood
Chairman of the Sub-Committee on Taxation & Debt Mgmt.
U. S. Senate
Washington, DC 20510

Dear Senator Packwood:

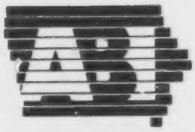
I understand that your Committee will hold hearings to reexamine the tax deductibility of qualified privately funded employee benefit health programs. I am convinced by personal experience that the tax law should continue to encourage employers to provide fringe benefits to employees.

The social value of such benefits is without dispute and has even become an essential condition which employees seek in order to insure themselves and their dependents against catastrophic medical expenses. I recently spent three weeks in hospital and was subject to open heart surgery where the collective cost exceeded $52,000. This was paid substantially through medical insurance coverage provided by my employer. Were it not for the availability of such assistance, I would at this time be bankrupt or in hopeless debt. I am sure there must be thousands of citizens who have had devastating financial experiences resulting from no medical fringe benefits notwithstanding present employer incentives.

I do not believe in socialized medicine as the evidence of its insufficiency, where it is available in European countries is very strong. Accordingly, I trust that you will protect the interests of millions of employees in this country by not further burdening salaried workers with tax increases, in one shape or another, which will make health cost protection more expensive than is presently the case. If changes should require employees to purchase more expensive benefits themselves rather than through employers group policies, it will further reduce the present value of their salary. Demands for disproportionate salary increases will result and culminate in an inflationary rise in the cost of consumer and capital goods. The economic and social value of leaving the present tax law in place is self evident.

Very truly yours,

Sidney Bentley



IOWA ASSOCIATION OF
BUSINESS & INDUSTRY

1984 AUG 13 PM 4:48

August 10, 1984

The Honorable Bob Packwood
United States Senator
Subcommittee on Taxation and
Debt Management
U.S. Senate Committee on Finance
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Packwood:

The following statement is submitted on behalf of the Iowa Association of Business & Industry (ABI) in reference to the July 26-27-30, 1984 public hearings held on taxation of fringe benefits.

ABI is a statewide business organization, representing 872 various businesses and manufacturers, with over 60 per cent of our membership employing less than 100 employees.

In a recent fringe benefit survey by this Association, 392 companies of 403 responding companies reported they provide a qualified IRS pension or profit-sharing program for all their employees. This survey represents both union and non-union employees.

This type of information certainly indicates that the private sector is, indeed, providing for employee needs through various benefit systems. These benefit programs should not be stripped for tax revenues. If our member companies are not encouraged to provide for employees' needs, then the government must. ABI believes the private enterprise can effectively and efficiently provide benefit programs better than the government programs.

Within our own Association (10 employees, consisting of 5 men and 7 women) every employee is covered by our pension program after they have completed one year of service. Inflation is not a direct factor because as salary increases occur, the portion remitted for that employee's pension also increases.

Yes, workers will suffer upon retirement if no pension provisions were made, as Social Security is inadequate and was designed to supplement retirement income, rather than be the only source of income. We believe our retirement program for all our employees is not only economically important, but also provides a psychological security to themselves and their families.

The Iowa Association of Business & Industry recommends the Subcommittee on Taxation and Debt Management be very careful in their deliberation and decision on taxation of fringe benefits.

Respectfully,

Farnsley L. Peters
President

/jm

August 8, 1984

Mr. John E. Jacob FSPA, MAAA, EA,
CPC, CEBS
6797 North High Street
Suite 216
Worthington, Ohio 43085

Mr. Roderick A. DeArment
Chief Council
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

John E. Jacob FSPA, MAAA, EA,
CPC, CEBS

JEJ/ce

attch.

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management

By: John E. Jacob, Fellow of the Society of Pension Actuaries,
Member of the American Acadamy of Actuaries,
Enrolled Actuary, Certified Pension Consultant,
Certified Employee Benefits Specialist

A very effective and efficient arrangement covering the needs of all employees has been built by the private enterprise system, to provide employee benefits.

This arrangement should not be systematically dismantled in the name of greater tax revenues. Private enterprise must be encouraged to meet the needs of employees through the private system. Otherwise, the government will have to provide these benefits, and we believe the ultimate price to our nation will be far greater.

In my career, spanning almost 30 years, I have worked with thousands of private companies that sponsor employee benefits. While it may be true that certain groups, such as professional corporations, have been able to provide tax sheltered benefits for a handful of very highly paid professionals, these are not representative of the plan sponsors who provide benefits for their employees. My concern is that the attempts to reduce or eliminate these tax sheltered programs for a very small group have resulted in a far greater cost and imposition on legitimate employee benefit plans.

With respect to the clients I currently service, excluding any professional corporations, I find that benefits do not principally go to the highly paid people. In fact, benefits are generally proportionate to current earnings and years of service. In fact, highly paid employees often do not receive benefits that are proportionate to their individual salaries, but rather, receive lower proportionate benefits.

Benefits are uniformly provided to all employees, regardless of sex. Many of my clients have large female groups in their employee force (well in excess of 50%). Benefits are provided to female employees on the same basis as male employees.

Most retirement programs adjust for inflation during the working years, which accounts for the increasing cost. While benefits during the payout period do not always adjust for inflation, a number of plans provide for ad hoc increases, or provide other means for reducing future inflationary pressures. Some of our clients are currently considering retirement benefits to automatically adjust for inflation after retirement, which is an extremely costly item (this can easily increase the cost of the defined benefit plan by 50%).

Employee benefits are essential to the economic security of all workers, dependents, and retirees. Millions of workers will suffer if employer sponsored benefits do not exist.

If the intent of congress is to raise revenues by preventing the abuse of the system by a small handful of highly paid professionals, actions should be directed to that singular abuse, rather than to destroy the entire system of providing benefits, upon which millions of employees depend.

ROBERT B. JENNINGS, JR.
Post Office Box 1511
Baton Rouge, Louisiana 70821

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fring Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Robert B. Jennings, Jr.

RBJ/mm

Attachment

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

BY: Robert B. Jennings

Robert B. Jennings, Jr.
Post Office Box 1511
Baton Rouge, Louisiana 70821

I would like to make a statement in favor of the Private Employee Benefit Plan System. I believe that this system should be strengthened in every way possible in lieu of any proposed dilution of the various benefits available to both employers and employees under the present system. The tax incentives for employers encourage the establishment of employee benefit plans which benefit both the employers and the employees. The tax deferred accumulation of earnings on monies placed in the plans provides an extraordinary opportunity for employees to accumulate capital for their retirement years. To eliminate these tax incentives would do great harm to the private employee benefit system and would force millions of employees to rely strictly on the inadequate retirement income provided by the Social Security system. The Social Security system is under great economic strain at this time in history, and all indications are that the system will continue to struggle. To decrease the potential retirement benefits provided by private benefit plans would reduce employees to reliance on the Social Security system entirely.

Some of the problems of employees can be reduced by the utilization of individual retirement accounts, but only the wealthier employees will be able to establish meaningful levels of contributions to these plans. At best, they will provide supplemental income to that received from private employee benefit plans and the Social Security system.

I am in favor of the private employee benefit plan system and I, again, urge you to consider strengthening this plan rather than weakening it.

Very truly yours,

Robert B. Jennings, Jr.

RBJ/mm

John Hancock Mutual Life Insurance Company

Group Insurance Operations

Washington Area Group Office

Ingleside Office Building
6849 Old Dominion Drive
4th Floor, Suite 470
McLean, Virginia 22101
(703) 821-1776

August 7, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committe on Finance, Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

My name is Richard A. Hedrick and I am writing this letter in connection with the hearings of the Senate Finance Subcommittee on Taxation and Debt Management on the subject of fringe benefits on July 26, 27, and 30th of 1984. I support Senator Packwood and his recommendation to not tax employee benefits. I work with many companies and virtually every client of my office is involved in serious Cost Containment Programs to help control health care cost. The benefits are being reduced as well as the contract provisions becoming more stringent. In my opinion this is a way of cost shifting on the employer since the lost of these benefits will be made up in direct compensation to the employee. There should be incentives for the Insurance Companies and Hospitals as well as employers, but not by taxing the benefits to the employees.

Upon review if you should have any questions, please do not hesitate to contact my office.

Very truly yours,

Richard A. Hedrick, CLU
Group Representative

RAH/ab

July 24, 1984

Mr. Roderick A. DeArment
Chief Council
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, D.C. 20510

Re: Taxation of Employee Benefits
Hearing Dates July 26, 27, 30, 1984

Dear Mr. DeArment:

I enclose the original and four copies of the following statement concerning our companies' policy of providing company paid health insurance.

Our company is a general building contractor/construction manager operating in the States of Kentucky and Tennessee.

Shortly after the founding of our company, it was decided by the officers to provide equal health care insurance for all salaried employees, from the president to the lowest level clerk, the only criteria being that they are salaried.

To date all salaried employees in our firm are equally covered by our company paid insurance.

We have structured our plan to cover major, expensive illnesses or surgeries, not day to day trips to the doctor, and other small items.

We consider our plan to be of great value to our salaried employees, and their production, as it lifts the burden of a potential financial calamity from their minds.

Thank you for your consideration of this statement.

Sincerely,

JONES, NANCE & STEINEMAN, INC.

L. W. Steineman
Secretary/Treasurer

LWS:sd

p.o. box 2000
3255 spring hollow drive
bowling green, kentucky 42102
502-782-3388

Statement of JWT Group, Inc.
Submitted to the Senate Finance Subcommittee
On Taxation and Debt Management
Hearing on Fringe Benefits
July 26-30, 1984

JWT Group, Inc., by its submission of this statement, wishes to record its strong opposition to two proposals now before your Committee. These are:

1. Proposals to prohibit integration of the terms of qualified retirement plans with Social Security contribution requirements; and

2. Proposals to further reduce the cap on annual employer contributions ("maximum annual addition" under Section 415 of the Internal Revenue Code) to accounts of staff members under defined contribution plans.

In addition, we also urge reconsideration of the provisions of the Deficit Reduction Act of 1984 ("DEFRA") postponing from 1986 until 1988 the commencement of annual cost-of-living adjustments to the $30,000 maximum annual addition figure established by the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA").

JWT Group, Inc. is the parent of a family of companies engaged in advertising, public relations, research, and related marketing communication services.

Like many other companies in personal service, high-tech, and other businesses whose success is extremely dependent upon the ability to attract and retain a highly skilled professional staff, our operating companies have long offered a strong package of employee benefits, important among which have been retirement benefits. With minor excepticns, these retirement benefits have been offered to all employees under qualified plans satisfying all applicable non-discrimination requirements. The plans have been integrated with Social Security contribution requirements.

We have always accepted the logic of the non-discrimination requirements while integrating our plans with Social Security contribution requirements for precisely the same reason: because an integrated, qualified (and thus non-discriminatory) plan gives consistent treatment to all staff members, a state of affairs we regard as fair and equitable, and, thus, conducive to positive staff morale.

We disagreed in principle with the introduction by ERISA of the maximum annual addition concept, but in practical terms

the level of the limit imposed, and the fact that it was subject to annual adjustment, meant it did not create serious difficulties.

The reduction of the cap to $30,000 by TEFRA, and the related postponement of annual adjustments was another matter. These steps meant that, for us, the limitation would not only affect a literal handful of top management people, but would over the years in question become applicable to a fairly significant number of key staff members below the top management level. We regarded these steps as inequitable and undesirable in that they seriously breached the principle of consistent treatment for all staff members.

Obviously, the further deferral under DEFRA of the reinstitution of annual adjustments to the maximum annual contribution figure has, as far as we are concerned, compounded the prior inequity.

We feel that additional compounding of this inequity through a further reduction of the cap and the prohibition of integration would be extremely ill-considered and should be rejected.

As noted earlier, we support the principle of consistent treatment for all employees. However, we feel that steps already taken and, particularly, the above-mentioned proposals pervert the concept of consistent treatment and cause qualified plans to actively, and severely discriminate against key (i.e., higher-compensated) staff members.

We urge that Congress consider extremely carefully whether the consequence of abolition of integration and further limitation upon contributions may not over time have extremely negative consequences for the future of qualified plans and thus conceivably quite negative consequences for the lower paid employees these misguided proposals evidently seek to protect.

Specifically, it seems to us that in light of requirements already on the book and, particularly, the additional limitations now proposed, companies who are heavily dependent upon their most highly skilled and therefore highly compensated employees will inevitably have to take steps on a non-qualified basis to assure equitable treatment of key employees with respect to retirement benefits. Once they have taken these steps, and the traditional principle of approaching retirement benefits across the board, through non-discriminatory, qualified plans has been breached, it is inevitable that, instead of emphasizing the qualified

plans, employers will thereafter give principal emphasis to the non-qualified plans covering their key employees. In fact -- though we would not anticipate that our companies would take this step -- once having taken the above step, many employers may actually consider changing over entirely to non-qualified plans either discriminating in favor of key employees or even limiting coverage to key employees (and leaving lower level employees without retirement benefits).

In sum, it is unrealistic for Congress to expect employers to stand idly by while legislative changes regarding retirement benefits leave them with plans that actively and severely discriminate against their key employees. To the contrary, employers can be expected to respond with non-qualified alternatives focused on the key employees, and the eventual consequence of this may be extremely negative for qualified plans benefiting all employees on a consistent basis.

Accordingly, we urge Congress to:

1. Return to reliance on traditional non-discrimination tests as a sufficient means of assuring fair treatment for all employees under qualified plans;

2. Reject proposals to abolish integration;

3. Reject proposals to further reduce the maximum annual addition to defined benefit plan accounts; and

4. Adopt legislation reinstituting the indexation of the maximum annual addition figure as of 1986, as originally provided under TEFRA.

Respectfully submitted.

JWT GROUP, INC.

August 7, 1984

Kearney & Trecker Corporation
A Cross & Trecker Company

11000 THEODORE TRECKER WAY
MILWAUKEE, WISCONSIN 53214
TELEPHONE 414 476-6303

August 3, 1984

Senate Finance Committee
% Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

To the Members of the Senate Finance Committee:

You have recently held a hearing on fringe benefits and their relationship to tax laws. As a major corporation in the Machine Tool Industry, Kearney & Trecker has long provided fringe benefits to its employees, recognizing that they are the most efficient and cost effective way the free market has set forth for delivering economic and health security to our employees. It is now, and has been, Kearney & Trecker's position that employees and citizens should not rely on Federal, State or Municipal governments to provide for their long-term security. We believe that the security of individuals is provided primarily by their own planning and by the benefit plans of profit-making corporations in this country who are allowed to compete in the free enterprise system and to share those rewards with employees.

While we recognize the Social Security system, and its retirement and medical benefits for employees who voluntarily withdraw from the workforce, we believe that corporate provided retirement income plans, such as pensions and qualified profit sharing plans, still remain the most cost effective method of providing additional economic security to supplement savings for retirement years. The

cost of funding and administering these individual plans is far less than that of any plan administered by the Federal government. Life and disability insurance programs on a group basis through our corporation, and health care plans for all of our employees, are tailor-made to the needs of our workforce within our region and take into account our local demographics, geographic variables and the needs of our individual employees. None of our plans treat highly compensated executives on a differential or unfair basis to the total group of our employees. We believe that preferential tax treatment of these plans has encouraged their growth throughout our company and our industry. We further believe that this type of approach is the best investment in the future economic security of our employees and, ultimately, of our nation.

If a tax policy stopped encouraging the provision of employee benefits such as those listed above by corporations, we foresee additional strain that would inevitably be placed upon governments, public institutions, community hospitals, the Social Security system and disability income system. We strongly support congressional tax policy that fosters corporately provided benefits and urge that Congress not look upon these benefit programs as a further source of revenue. We believe that the response of the citizenry to the IRA legislation has been so positive that it should have sent a message to the Congress that the preferred and best investment in the economic future of the citizens of this nation are those which are allowed by the government without interference and/or taxation. Legislation which would make it difficult for corporations to provide these benefits, without drastically increasing their costs to the corporation, would cause most private industry to rethink their position on fringe benefits and could have a long-lasting adverse impact on the security of its employees.

We then, again, ask the committee to recommend to Congress no further legislation taxing deferred benefit or fringe benefit programs such as retirement income plans, health and life insurance, disability insurance and other types of benefits that may be provided throughout the nation by corporations.

We further ask you make a positive statement against any legislation of this nature.

Sincerely,

David G. Coverdale
Vice President
Industrial Relations

DGC/lj

Kelley Technical Coatings, Inc.
Post Office Box 10137
1445 South 15th Street
Louisville, Kentucky 40210
Telephone: 502 636-2561

Olympic Swimming Pool Products
Pool Coatings and Deck Paints
Repair Materials and Allied Products

Kel-Tech Specialty Coatings
Architectural Paints
Industrial Enamels
Specialty Coatings

Convoy Non-Slip Safety Coatings
Epoxy and Acrylic Formulations

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

KELLEY TECHNICAL COATINGS, INC.

David Woodson
Profit Sharing Plan Administrator

DW/gt

Enclosure

cc

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: David Woodson, Plan Administrator for
Kelley Technical Coatings, Inc.
Profit Sharing Plan.

We believe that profit sharing plans for small corporation such as ours are very beneficial to all of the employees.

It would ultimately do harm to employee benefits if tax incentives are taken away from the corporation sponsoring the plan.

It is our opinion that this would serve to impair the employee much more than the corporation.

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

U. S. SENATE

HEARINGS ON FRINGE BENEFITS

JULY 26, 27 AND 30, 1984

STATEMENT OF

THE KEMPER GROUP

AUGUST 13, 1984

The following statement is submitted by the Kemper Group of insurance companies for inclusion in the record of the hearing on fringe benefits held by the Senate Finance Subcommittee on Taxation and Debt Management on July 26, 27 and 30, 1984.

The Kemper Group is the 16th largest property-casualty insurer in the United States, and in addition to property-casualty insurance, the Kemper companies provide life insurance, reinsurance, investment services, and consulting services for cost containment of medical benefits.

Through social and economic policies the United States has recognized the importance of providing people with financial security through creating such programs as Social Security, ERISA, Medicare, Medicaid, unemployment compensation, and workers' compensation. However, the government cannot afford to be the sole provider of economic protection. Employer-sponsored benefit plans play an important role in supplementing programs created by the government to further the socially important objective of providing economic security and stability for workers and their families.

If employer-sponsored benefits should be discontinued, there would be higher levels of poverty for the elderly and disabled, and people could have high medical bills from an illness or accident which they may never be able to pay. If these benefits are not provided through employers, workers will call upon the government to create these benefit programs because people recognize that such protection is essential to their well being.

Tax laws encourage businesses to create benefit programs to provide security for employees. We believe tax laws should continue to encourage the desirable public goal of providing security for workers.

Employers have done a good job of providing the benefits needed by workers, and we feel that employers are in the best position to recognize the needs of their employees and to provide the appropriate benefit programs. In addition

by purchasing benefits for a large work force, employers can provide benefits at a much lower cost through a group rate than what an employee can purchase on his own.

The Kemper Group pays an average of $8,525 per employee for employer-sponsored and statutory benefits. This is an average of 41.5% of an employee's base salary. The average salary per Kemper employee, excluding vacation and holidays, is $20,562. The taxation of these benefits would have a considerable detrimental effect on employees. The cost for employees to participate in benefit programs would increase greatly and could cause some employees, particularly the lower paid ones, to drop out of programs because they could become unaffordable.

To maintain the financial viability of group plans, a high participation rate of a broad cross-section of employees is necessary. For example, if lower paid workers feel they cannot afford to continue participating in a health insurance plan and young healthy workers drop out of the plan because of the cost, this can result in adverse selection. This means greater payments from the health insurance plan and thus increasing premiums. This could lead to further withdrawals from the program. This situation could seriously undermine the group health insurance mechanism which has been able to provide coverage to workers without proof of insurability at low cost to employees.

The Kemper Group provides pension, welfare and other benefits to its approximately 13,000 eligible employees. We believe these benefit programs provide economic security to our workers and protect them and their families from financial disaster when they retire or if they should become ill, disabled, or die. These benefits are available to workers at all compensation levels and the value of these programs are recognized by our employees as shown by their high participation rate in the following plans:

Benefit Program	Participation Rate of All	Under $25,000 Salary
Retirement	74.3%	70.0%
Major Medical Including HMO's	88.4%	84.0%
Savings & Profit Sharing	71.9%	67.1%
Dental	42.7%	37.7%
Life Insurance	Free group life insurance is provided to regular full time employees equal to annual salary subject to a $50,000 maximum.	
Disability Income Protection Plan Long-Term	99.9%	
Voluntary Group Travel	13.3% (Recently taken over and not promoted yet)	

The following is a description of the various benefit plans in which Kemper employees can participate and the average cost paid by the company in 1983 per participating employee per plan:

The Kemper Companies Employees' Retirement Plan was established in 1934 to provide workers who voluntarily participate the opportunity to retire with a monthly benefit payable for their lifetime. These monthly payments will supplement any other retirement income which can come from Social Security benefits, an IRA, the Kemper Employees' Saving and Profit Sharing Plan, savings and investments. The plan is a "qualified" defined benefit pension designed to meet the requirements of ERISA. Taxes on benefits accrued from company contributions are deferred until the employee receives a payout from the plan. In 1983 the company's average expenditure per participating employee was $822.

Participant contributions currently equal one percent of earnings. Kemper contributes a substantial part of the annual cost of the plan. For example, an employee who has contributred $2,292 to the plan during twenty years and receives monthly retirement benefits of $371.49 at age 65 would receive within the first seven months of retirement an amount equal to his contribution. The company contribution provides for the continuation of benefit payments for the employee's lifetime. Employees may select benefit payment options of Life-Only Benefits, 50% Joint and Survivor, or Additional Survivorship.

The Kemper Group Major Medical Benefit is a comprehensive health insurance plan designed to help relieve the financial burden an employee may experience from incurring substantial medical expenses due to accidental bodily injury, illness, disease, pregnancy or complication of pregnancy, alcoholism, chemical dependency, drug addiction, and mental illness. The plan provides a $1 million lifetime maximum benefit for each insured person. In 1983 the company's average expenditure per participating employee was $1,307.

Effective January 1, 1984, employees contribute monthly $16.36 for themselves only or $44.22 to include coverage for dependents. The company premium is $68.68 for a single employee or $141.26 for an employee plus dependents. Even with the premium increase at the beginning of this year, the Lumbermens Mutual Casualty Company (the major pool company of the Kemper Group) portion of the plan is expected to run a deficit of $570,000 during 1984. This amount will be absorbed by the company. Total cost to LMC of the plan in 1984 is expected to be $10,270,000.

Effective at the beginning of this year Kemper initiated the following additional cost control features:

-- raising to $200 from $100 an all cause calendar year deductible for covered major medical charges. Separate deductibles of $100 apply for charges for mental illness and $50 for alcoholism, chemical dependency, and drug addiction,

-- increasing the maximum out of pocket costs from $500 to $1,000 ($2,000 for a family),

-- increasing the share of covered costs paid by participants from 10 percent to 20 percent,

-- covering outpatient pre-admission testing at 100 percent without a deductible instead of 90 percent with a deductible,

-- fully covering outpatient surgical procedures without a deductible or coinsurance,

-- providing hospice care under the plan, and

-- adding an employee audit provision to encourage workers to discover hospital and health care provider billing errors. Employees who persuade the hospital to correct the error are paid one-third of the savings with a minimum payment of $10 and a maximum payment of $350. Bills of $10,000 or more are already audited.

In another effort to slow increasing costs of medical coverage and group insurance premiums, all group health insurance plans an employee may have will be coordinated so the total benefits paid do not exceed 100 percent of all covered costs.

Employees may elect to participate in an HMO and the company will contribute up to the same amount that it would contribute for the same type of coverage under the Group Major Medical Plan.

We do feel this plan will protect workers from hospital bills they would find difficult or impossible to pay. For example, if a family of three covered by the plan each had a claim within the same year for a tonsillectomy, an appendectomy, and a heart operation and the total hospital bill is $21,630.13, the total family outlay would be only $2,000.

The Kemper Savings and Profit Sharing Plan is designed to be a long-term incentive savings plan and vehicle for participants to share in company profits. This plan can be an important part of an employee's financial program and provide retirement income. Income accumulation under this plan is taxed deferred. In 1983 the company's average expenditure per participating employee was $853.

Employees who participate in this plan must make a contribution of at least one percent of their regular salary. A participating contribution of up to 5 percent of salary can be made, and the company will make a savings contribution

each payday equal to 10 percent of the participating contribution. In addition if approved by the board of directors the company may also make an annual profit sharing contribution at the end of the plan year based upon its net income. Employees can also make a voluntary contribution of an additional 10 percent of their salary.

The Group Dental Plan is designed to help relieve the financial burden if an employee or covered dependent incurs substantial dental expenses including periodontic and orthodonic treatment. In 1983 the company's average expenditure per employee was $75.

Employees who participate are required to make a monthly contribution of $3.58 for themselves or $9.58 for themselves and dependents. The company pays one half of the total premium. Under Part A coverage for regular dental work, there is a $100 deductible a year with the plan paying 50 percent of the reasonable and customary charges up to $1,000 a year. Under Part B coverage for periodontal disease and orthodontic treatment, there is a separate $100 deductible with the plan playing 50 percent of the reasonable and customary charges up to $500 per year. Benefits from other group dental plans are coordinated with this plan to insure that no more than 100 percent of all covered charges will be paid.

The Group Life Plan provides financial protection for an employee's family in the event he/she should die. Kemper provides regular full-time employees with free group life insurance equal to their annual salary, subject to a $50,000 maximum. In 1983 the company's average expenditure per employee was $106.

Employees can insure their eligible dependents for a monthly premium of $1.44. Regular full-time employees may also purchase optional contributory group life insurance up to five times their annual salary. This costs them 45 cents a month per $1,000 of insurance. For example, if an employee purchases $25,000 of contributory coverage he/she would pay $11.25 a month.

The Kemper Sickness and Disability Programs under the Voluntary Employer Contribution (VEC) and the Disability Income Protection Plan (DIPP) are intended to provide regular full-time employees with comprehensive sickness and disability income protection coverage. Together these plans will provide continuing income of at least 60 percent of the worker's regular salary for each full or partial day of absence due to a covered accidental bodily injury, illness, disease, pregnancy or complication of pregnancy. All VEC benefits and short-term DIPP benefits are provided at no cost to the employee and are paid from general corporate funds. In 1983 the company's average expenditure per employee was $361.

Regular full-time employees are automatically enrolled under the DIPP, but the long-term coverage is optional in most states and may be discontinued. The long-term benefits provided under DIPP are payable through a group disability insurance policy, and employees pay 100 percent of the cost for this coverage which commences after a 13 consecutive week total disability elimination period. (VEC and the short-term DIPP provide coverage during the elimination period.) These long-term benefits equal 60 percent of the employee's salary until he/she reaches age 65. The biweekly rate for long term disability increased to .0064841 of salary effective January 1, 1984. For example, if an employee earns $15,000 a year his biweekly premium will be $3.74. Since the premium for this benefit is paid by the employee, any benefit payout from the plan is income tax free.

VEC and DIPP benefits are reduced by payments an employee receives from workers' compensation, occupational disease laws, state or federal laws of like intent, any compulsory disability benefit law, any retirement benefits from the company's retirement plan, and any disability or retirement benefits under social security, railroad retirement or the Canadian or Quebec Pension Plan.

The Group Travel Accident Plan is provided to all employees without cost to cover them in the event they are involved in an accident which results in death, dismemberment or total disability while traveling on company business. The payment amount is three times the employee's annual salary, up to a limit of $250,000 per employee per accident, subject to a maximum of $1,500,000 per accident if more than one employee is involved. In 1983 the company's average expenditure per employee was $4.

Employees and their dependents may also participate in a Voluntary Group Accident Plan which provides a 24-hour all-risk accidental death and dismemberment coverage providing protection at home, on the job, or anywhere in the world. Employees may select benefits from $10,000 to $150,000. Employees pay the full cost for coverage at 44 cents a month per $10,000 of coverage, plus an additional 20 cents a month per $10,000 of coverage for dependents.

Kemper Educational Benefits help employees achieve effective performance and advancement and encourage employees to develop their capabilities through suitable training and educational programs. Educational assistance is provided for undergraduate and graduate level college courses, courses covering general and specialized insurance subjects, and supervisory and managerial development. 45.2% of employees participate in internal Kemper classroom courses, 17.1% participate in self-study classes, 6.1% in Insurance Institute of America and Charter Property Casualty Underwriter classes, and 5.7% in outside university courses. The company will pay 50 percent of tuition and text book expenses for approved courses and 100 percent reimbursement for any specific course the company asked an employee to take.

In 1983 the company's average expenditure per employee for educational assistance and other miscellaneous benefits was $215.

In addition to the above benefits, Kemper in 1983 paid an average per employee of $850 for ten holidays, $1,190 for vacation time, $9 for jury duty, $378 for serverance pay, $1,490 for FICA, $225 for unemployement compensation, $98 for workers' compensation, $1 for state disability payments (required by four states), $62 for anniversary awards, $49 for Christmas gifts, $1 for employee referral awards, $247 for relocation, and $230 for internal training.

We believe that the Kemper Group and other companies have established an efficient and effective system of benefit programs that are needed by employees. A number of proposals have been made to tax employer-provided health insurance costing over a specific amount or to place an absolute percentage or dollar limit on the total amount that can be spent on fringe benefits, with any amount over this limit being taxed. While we are concerned about the federal deficit, we do not believe employer-provided benefit programs should be taxed or dismantled in the hopes of raising additional tax revenues. We feel such taxation would be harmful to millions of people in this country and would place additional burdens on the social programs this country has in place to assist people who need help. Benefit programs, such as health, life and disability insurance, pensions and others, do provide essential economic security for workers, retirees and their families of a large portion of our country's population. The private enterprise system can provide these benefits at a low cost and should continue to be encouraged through our country's tax policy to do so.

KEY TRUST
Key Trust Company of Florida N.A.

Terry A. Rodgers, C.F.A.
President and Chief Executive Officer

110 Wisteria Ave., Orlando, Florida 32806

Telephone 305-423-0157

July 27, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Dept Management.

Thank you for your assistance.

Sincerely,

Terry A. Rodgers

Terry A. Rodgers, C.F.A.
President and Chief Executive Officer

TAR/gr
Enclosure

"Submitted as Part of the Record of the Hearing Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management."

"By Terry A. Rodgers, President and C.E.O. of Key Trust Company of Florida N.A."

As a strong advocate of the capitalistic system that has been the foundation for economic and social development in the United States, I find it almost unbelievable that some of our elected Congressmen would even consider that the private employee benefit plan system does not serve a useful social or economical purpose. Not only does the private pension system provide benefits, it acts as an incentive for employees to work more productively.

I strongly recommend that our Congressmen talk to retired workers of Eastman Kodak, Proctor and Gamble, Sears, Standard Oil, General Motors and hundreds of other companies comprising the business foundation of our economic system. They should ask about the incentives, rewards, and retirement benefits provided through private enterprise. It is the spending power of this accumulated wealth from a growing class of people that will provide stability for our future economy. It is critical to note that these benefits were accumulated through cooperation of employee and employer ideas during very hard economic times. Even today, the average working American cannot afford to save enough of his own money to fund a retirement plan for himself.

With inflation reaching historically high levels during the past five years, the consumer still believes that you should spend today before prices go up further. This is not an incentive for individuals to fund retirement plans and future expenses.

Secondly, the Social Security and Wellfare programs have adversely affected the consumers productivity and desire to work. Before Social Security and Medicare, people had an incentive to work and save but now they have an incentive to work, spend, and let Social Security take care of them at retirement.

Thirdly, a questionnaire should be sent to each Congressman with a simple question: "How much money do you save out of each of your monthly paychecks for your own retirement plan? Is this sufficient to retire upon?" I sincerely believe that these highly educated, planning oriented, and well paid

individuals are no better at saving their funds than anyone else. In fact, I would expect that their employer, the Government, provides most of the retirement benefits they expect to obtain in the future. Also, as a percentage of their total income, I would expect that they save less than anyone else in the working class.

Fourth, corporations are people. People like incentives. Tax breaks will always take precedence over pure expenses. Therefore, I believe that the private pension system will need some tax incentives to survive the legal hassels, paperwork, and administrative expenses involved with retaining a retirement benefit plan for employees. Without these tax incentives, I strongly believe that corporations will find a way to eliminate expensive benefit packages covering all employees and instead, concentrate on creating higher benefits for a select group of managers already highly paid.

Fifth, IRA's are still new. It will be many years before an accurate reading of the long-term economic benefit of these plans can be determined. An important question is: "How many current participants are there in the private pension system versus the number of IRA's now in existance?" IRA's involve a self-disciplined savings plan that many people just don't have.

In summary, I believe the private pension system has already been reviewed, updated, reviewed again and changed many times since 1974 (ERISA). These changes have resolved many of the problems and abuses that did exist. Now, the problem of the financial condition of Social Security and Medicare seems to support increasing the incentives for a stronger private pension system. This I believe would be much more productive than radical and non-productive changes toward eliminating tax incentives for corporate sponsors to maintain retirement plans for their employees.

KIMBALL AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT #739 P.O. BOX 368 KIMBALL, MN 55353

July 25, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, DC 20510

Mr. DeArment:

As a public school administrator, I would like to address the issue of current tax favored treatment of employee pension and welfare benefits. It is my understanding that several issues are being addressed as changes are being considered in this area.

It is imperative that public agencies, such as school districts, have the opportunity to provide tax favored benefits to their employees. The costs to both the school district and the school employee would increase dramatically if current benefits would become taxable income items. Group cost factors are much more favorable than what individuals must face in terms of securing health care, dental care, life insurance and other needed personal protection.

As the great majority of our employees earn less than $25,000 annually, increasing their tax base by including existing fringe benefits, would place a remarkable burden on those individuals. If tax-favored employer sponsored benefits are going to be limited or removed, don't take them away from the lower-paid employees, but consider the upper income people - in the $60,000 - $150,000 range.

Public school employees need the current benefits that are made available to them through negotiations with their employers. The tax impact on our employees if benefits become taxable will adversely affect the entire educational system and programs. Don't take away benefits from the public employee - it is the only fair tax break that is available to them.

Sincerely,

K.R. Helling

Kenneth R. Helling,
Superintendent

KMETZ, KUHNS, BYRD & ASSOCIATES, P.S.C.
P.O. BOX 35070
LOUISVILLE, KENTUCKY 40232

TELEPHONE
502-589-6240

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management

by Kmetz, Kuhns, Byrd & Associates, P.S.C.

We are distressed to hear that employee benefits for our corporation will be markedly altered by impending legislation. We are particularly concerned about the following:

1). These benefits allegedly serve no useful social and economic purpose.

The funds for pension plans of our employees are regularly invested in savings and loan organizations in which monies are recycled into the home building industry, in money market funds in which monies are used to capitalize industrial expansion, in bonds in which monies are used to capitalize industrial expansion, and stocks in which monies are used to capitalize future economic growth of this country.

2). Benefits paid to employees.

All employees receive the same benefits on a prorata basis without discrimination to the highest or lowest paid employees.

3). Absent tax incentives.

There is no question that without these incentives, these monies would not be put into that portion of the economy in which to foster further expansion and development of jobs.

4). Relationship to social security system.

The social security system was never intended to supplant a retirement plan. The discontinuance of a system which encourages an incentive for building a retirement plan and the encouragement of dependency on the social security system would wreak havoc with the social welfare of this country.

We strongly urge the committee to consider these factors and strengthen employee fringe benefits rather than dilute them.

2457i

W. MARK KNOX

309 HOLLYFAX CIRCLE

ATLANTA, GEORGIA 30328

July 27, 1984

Mr. Roderick A. DeArment
Chief of Counsel
Committee on Finance
Room 219
Dirksen Senate Office Bldg.
Washington D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Senate Finance Committee, Sub-committee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Mark Knox

W. Mark Knox, CLU

WMK:jr

attach.

Submitted as part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Finance Committee, Sub-committee on Taxation and Debt Management

By W. Mark Knox

I was surprised to learn that apparently a number of Congressmen feel that our private employee benefit plan system no longer needs or deserves the tax incentives which currently support that system. I have been involved with design, funding and administration of employee benefit plans for 20 years as an insurance company representative, and I believe it would be tragic for the nation's workers if those tax incentives were removed.

Employers in this country have developed very broad group insurance programs, which provide employees protection in event of death or disability as well as coverage for medical expenses, which are enormous today. These plans now cover practically all of the employed workers in this country. The fact that the cost of these programs paid by the employer is tax deductible to the employer and is not taxable as income to the employee has, in large measure, brought about the wide-spread adoption of these plans. Without the tax incentives, it is doubtful that coverage of employees under benefit plans would be very wide spread at all. Certainly these benefit plans have served very useful economic and social purposes since their success removes the burdens that otherwise would fall to government responsibility. I believe that if the tax incentives were removed, employers faced with ever-rising wage costs would, in many cases, reduce or eliminate their contribution toward the cost of established programs.

I believe the same case applies to retirement plans. The "three-legged stool" concept has been very successful in providing millions of Americans a higher quality of life during their retirement years. Under this concept, it is understood that provision of retirement income should be partly the responsibility of the government (Social Security), partly the responsibility of employer sponsored private retirement plans, and partly from personal savings. Again, I believe that if the existing tax incentives are removed, there will be shrinkage in the amount of coverage provided through private employer sponsored plans. This will only result in added pressure on the Social Security system. I believe that the IRA type vehicles are an excellent approach to encouraging employees to save for their own retirement, but I do not believe that full dependence on that type vehicle can ever replace the magnitude of retirement benefits provided through employer sponsors.

In summary, it seems to me that our present private employee benefit plan system has been enormously successful. It would be tragic, in my opinion, to undermine the system by removing the tax incentives, which are largely responsible for the success of the system.

Mark Knox

W. Mark Knox, CLU

SUMMARY OF

Statement on

Tax Incentives for Pensions and Flexible Compensation Plans

For Inclusion in the Written Record of the

United States Senate
Committee on Finance
Subcommittee on Taxation and Debt Management

Hearing on Employee Fringe Benefits

July 26, 27, and 30, 1984

by

Dr. Sophie M. Korczyk*

The views expressed in this statement are solely those of the author and should not be attributed to the Employee Benefit Research Institute, its officers, trustees, sponsors or other staff.

Sophie Korczyk earned her Ph.D. in economics from Washington University (St. Louis). Dr. Korczyk is presently a research associate at the Employee Benefit Research Institute. Her previous positions include appointments at the Congressional Budget Office and university teaching and research positions. Portions of this statement are based on Sophie M. Korczyk, Retirement Security and Tax Policy (Washington, D.C.: EBRI, forthcoming).

Mr. Chairman, I am pleased to submit this statement on tax policy issues in pensions and flexible benefits programs. Tax provisions governing pensions and flexible compensation plans have figured prominently in Congressional debates over the last three tax bills.

What Does Pension Policy Cost?

Tax expenditures are commonly used in public policy debates as a measure of the social cost of federal pension policy. There is wide disagreement, however about the proper way to measure these costs and about who benefits from the incentives provided in these provisions. Measured using the Treasury's approach, about $0.83 out of every tax-deferred dollar appears to be lost to the Treasury. Such estimates overstate the amount of revenue lost due to such provisions, however. Because today's pension-plan participants will have higher retirement incomes than today's retirees, they will pay more taxes in retirement. Over their lifetimes, those employees now at the beginning of their pension careers will repay all but $0.25 to $0.40 of every tax-deferred dollar.

Even this more realistic lifetime measure of tax expenditures probably still overstates the revenue costs of pension-related tax policy. It ignores the availability of other tax-favored investment vehicles that could be used for retirement saving in place of employer pensions as well as the costs of relying on the taxpayer as the sole guarantor of retirement incomes.

Who Receives Employee Benefits?

The expansion of employee benefits has primarily helped the middle income worker. Among employees who were covered by pensions in 1983, nearly 28 million (or 59.0 percent) earned less than $20,000. Among employed persons with employer-provided health coverage 83.7 million (or 74.3 percent) earned less than $20,000, and 23.2 percent earned between $20,000 and $50,000. Fewer than 3 percent of pension and health insurance participants earn more than $50,000.

Flexible Compensation Plans

The labor force is changing rapidly. Flexible compensation plans have emerged as some employers' effort to respond to the needs of a diverse work force without adding to compensation costs to accomodate each additional group. Most flexible compensation plans allow employees to trade benefits in one area for increases in other benefits. A two-earner couple, for example, can trade redundant health coverage for other benefits such as dependent care, increased life insurance, or added vacation time.

Employers with flexible compensation plans have found that the ability to choose increases employees' satisfaction with their benefits even when the dollar value of the benefits package is unchanged. The ability of employers and employees to use flexible compensation to

contain benefit cost growth suggests that these plans can have important macroeconomic effects by stabilizing benefit growth and labor costs.

Recent Legislative Actions and Prospects For the Future

Employee benefits issues have played a major role in recent tax policy debates. For example, in the Tax Reform Act of 1984, the Congress made significant changes in at least sixteen areas of employee benefits. The importance of employee benefits in tax policy promises to continue as the Congress tries to deal with projected federal deficits. Both the Congress and the Administration have expressed considerable interest in basic reform of the personal income tax.

In general, basic tax reform proposals would lower marginal tax rates and expand the income tax base. Basic tax reform proposals offer ways to restructure--not lower--the nation's tax bill. Three recent legislative proposals illustrate some of the tradeoffs in basic tax reform.

Comprehensive Income Tax. Senator Bill Bradley (D-NJ) and Representative Richard Gephardt (D-MO) have introduced a comprehensive income tax proposal (S.1421/H.R.3271). It would raise the same amount of revenue as current law by using only a three bracket tax-rate structure: 14, 26, and 30 percent. All employer contributions for benefits other than pensions would be included in the employee's taxable income. The Section 415 limits on pension benefits and contributions would be made much more restrictive than under current law.

Senator Mark Hatfield (R-OR) has also introduced a comprehensive tax proposal (S.2158). The Hatfield proposal would retain current-law treatment for employer-provided pensions, but all other employer contributions for benefits would be included in taxable income. There would be six tax brackets, ranging from 6 percent to 20 percent.

Consumption Tax. Senator Dennis DeConcini (D-AZ) has introduced a consumption tax proposal (S.557). Under this proposal, all income other than that used for investment would be taxed at a marginal rate of 19 percent. This tax structure would be financed by eliminating nearly all current law tax preferences. Contributions and benefits in retirement-income programs would retain their current tax-law treatment. The employer's contribution for health, welfare, and "fringe" benefits, however, would no longer be tax deductible as an employer compensation expense.

All three legislative proposals, though they are based on different tax principles, would eliminate tax preferences for most employer-provided benefits. Employer contributions for nonpension benefits would be treated as taxable income.

Conclusions

We ask, Mr. Chairman, that the Congress recognize how much it has already achieved in safeguarding the economic security of the American worker and that it renew its commitment to encouraging private provision for economic security.

A
Statement on

Tax Incentives For Pensions and Flexible Compensation Plans

For Inclusion in the Written Record of the

United States Senate
Committee on Finance
Subcommittee on Taxation and Debt Management

Hearing on Employee Fringe Benefits

July 26, 27, and 30, 1984

by
Dr. Sophie M. Korczyk*

The views expressed in this statement are solely those of the author and should not be attributed to the Employee Benefit Research Institute, its officers, trustees, sponsors or other staff.

Sophie Korczyk earned her Ph.D. in economics from Washington University (St. Louis). Dr. Korczyk is presently a research associate at the Employee Benefit Research Institute. Her previous positions include appointments at the Congressional Budget Office and university teaching and research positions. Portions of this statement are based on Sophie M. Korczyk, Retirement Security and Tax Policy (Washington, D.C.: EBRI, forthcoming).

Table of Contents

Trends in Employee Benefits	1
What Does Pension Policy Cost?	3
Who Receives Employee Benefits?	5
What Does Society Get in Return?	9
Increased savings	9
Increased retirement income	11
Alternative Ways to Accomplish the Goals of Pension Policy	12
Flexible Compensation Plans	13
Recent Legislative Actions and Prospects For the Future	15
Comprehensive Income Tax	17
Consumption Tax	18
Comparing Major Basic Tax Reform Proposals	19
Conclusions	21
Notes	22

Tables

Table 1	How Much of Pension-Related Tax Deferrals is Lost to the Treasury?	4
Table 2	Distribution of Employees with Pension and Health Coverage by Earnings, 1983	7
Table 3	Net Lifetime Pension-Related Tax Benefit Shares Among Employees Aged 25 to 34	8
Table 4	Savings, Pension Coverage, and Income, 1983	10
Table 5	Employer Contributions and Treasury Department Tax Expenditure Estimates for Selected Voluntary Benefits	20

39-707 O - 85 - 55

Mr. Chairman, I am pleased to submit this statement on tax policy issues in pensions and flexible benefits programs. Tax provisions governing pensions and flexible compensation plans have figured prominently in Congressional debates over the last three tax bills. In my statement today, I will address the following questions:

o What is the revenue cost of pensions and flexible benefits plans?

o Who receives these tax benefits?

o What does society get for the foregone revenue?

o Are tax incentives more effective or less effective in achieving certain goals than other policy devices aimed at the same goals?

o What are the implications for upcoming policy debates?

Trends in Employee Benefits

Employer contributions for employee benefits have increased steadily as a share of compensation over the last thirty years. According to Department of Commerce estimates, cash outlays for employee benefits beyond wages and salaries have grown from 4.9 percent of total compensation in 1950 to 15.8 percent in 1982. Over a third of this amount finances employer-sponsored pension plans. Pension contributions increased from 1.8 percent of employee compensation in 1950 to 5.3 percent in 1982. This growth appears to be slowing, however. Between 1980 and 1982, for example, employee benefits grew 1.6 percent annually as a share of compensation, compared with an annual rate of over 4 percent between 1970 and 1980.

The tax-favored treatment of qualified pensions predates even the establishment of the Social Security system in 1935. Statutes enacted in 1921 and later, covering income from trusts and pension plans, were designed to encourage the expansion of pension coverage and increased saving levels and to

provide a private source of retirement security. The tax treatment accorded more recently developed retirement and capital accumulation vehicles such as individual retirement accounts (IRAs), simplified employee pension plans (SEPs), section 401(k) plans, and qualified voluntary employee contributions (QVECs) indicates continued Congressional interest in increasing voluntary individual retirement savings.

The federal tax system is the most important factor influencing benefit growth. The tax code makes benefits cost-effective as compensation and encourages the broad coverage of employees. The tax code makes benefits cost-effective by providing a tax deduction for employers and preferential tax treatment for employees. As a result, a dollar in benefits may be worth more to the employee than a dollar in cash wages.

The tax code encourages employers to extend their benefit coverage to lower- and moderate-income employees. The preferential tax treatment accorded benefits is contingent upon compliance with the tax code's nondiscrimination provisions governing coverage of the employer's work force.

Historically, the tax code has also worked with inflation to encourage benefit growth as protection against inflation-driven increases in real marginal tax rates. During the past twenty years, inflation has pushed most taxpayers into higher marginal tax brackets, despite legislation lowering nominal tax rates for the different income levels. This "bracket creep," the gradual increase in real marginal tax rates, has prompted the use of noncash benefits to stem the erosion of real income. Up to 30 percent of the benefit growth over this twenty-year period may be attributed to attempts to alleviate inflation's impact on employee compensation.

While the tax code is a major factor encouraging benefit growth it is

not the only factor. Employee compensation also depends on income growth, employer cost considerations, and employer and employee preferences.

What Does Pension Policy Cost?

Tax expenditures are commonly used in public policy debates as a measure of the social cost of federal pension policy. The Treasury estimates that pension-related tax provisions cost the federal government over $50 billion each year in lost revenues. Persistent federal deficits have called attention to Internal Revenue Code provisions that appear to subsidize select groups of taxpayers.

There is wide disagreement, however about the proper way to measure these costs and about who benefits from the incentives provided in these provisions. Tax-expenditure measures used in the federal budget process are calculated on a cash-flow or cross-sectional basis, with the amount of the taxes deferred by current pension plan participants offset against the amount of taxes paid by current beneficiaries. Measured this way, about $0.83 out of every tax-deferred dollar appears to be lost to the Treasury (see table 1). Such estimates overstate the amount of revenue lost due to such provisions, however. Because today's pension-plan participants will have higher retirement incomes than today's retirees, they will pay more taxes in retirement. Over their lifetimes, those employees now at the beginning of their pension careers will repay all but $0.25 to $0.40 of every tax-deferred dollar. As the pension system matures, the numbers and income levels of pension-plan participants and retirees will differ less than they do today. As a result, in the future, pension-related tax expenditures measured using the Treasury's approach will be much closer to lifetime estimates.[1]

Even this more realistic lifetime measure of tax expenditures probably

4

TABLE 1

How Much of Pension-Related Tax Deferrals is Lost to the Treasury?

Method Used	Taxes Lost	Taxes Deferred
Treasury Method	83%	0%
Lifetime Method:		
Nominal dollars[a]	14	86
Real dollars[b]	28	72
Discounted for interest:[c]		
at pension rate	40	60
at federal rate	36	64

SOURCE: Sophie M. Korczyk, Retirement Security and Tax Policy (Washington, D.C.: EBRI, forthcoming).

[a]Before adjusting for inflation.
[b]After adjusting for inflation.
[c]Interest rate used to discount taxes paid in retirement to the year of retirement.

still overstates the revenue costs of pension-related tax policy. Taxpayers have access to many other tax-favored investment vehicles that could be used for retirement saving in place of employer pensions. In the absence of tax provisions favoring pensions, taxpayers would probably make more use of these vehicles. This would increase the revenue loss attributable to these alternative investments.

Tax expenditure statistics are also misleading because they imply that only advance-funded plans impose social costs. Tax deferrals are measured only on contributions and earnings actually received by plans, which means that a pension plan must be advance-funded to result in tax expenditures. The Employee Retirement Income Security Act of 1974 (ERISA) established minimum funding standards for private-employer defined-benefit plans, enhancing benefit security. In contrast, the Civil Service Retirement System (CSRS) and the Military Retirement System (MRS), the two major federal retirement plans, have little impact on tax expenditures because they are largely unfunded. Underfunded or unfunded plans, however, can cost the taxpayer much more in the long run. In sum, pension-related tax policy is not as costly as available revenue-loss estimates would suggest.

Who Receives Employee Benefits?

The expansion of employee benefits has primarily helped the middle income worker. Among employees who were covered by pensions in 1983, nearly 28 million (or 59.0 percent) earned less than $20,000 (Table 2). Among employed persons with employer-provided health coverage 83.7 million (or 74.3 percent) earned less than $20,000, and 23.2 percent earned between $20,000 and $50,000. Fewer than 3 percent of pension and health insurance participants earn more than $50,000.

The distribution of pension-related tax benefits among income groups reflects the distribution of coverage and participation. The largest share of lifetime pension-related tax benefits accrues to middle-income employees. In 1979, 34 percent of employees aged 25 to 34 earned between $20,000 and $50,000. These employees will receive 53 percent of the group's pension-related tax benefits (table 3). Those employees age 25 to 34 who earned $20,000 or less will receive 24 percent of their group's lifetime pension-related tax benefits, while 22 percent will go to those earning over $50,000.

Employee benefits are now a mainstay of the middle-income worker's income security, providing hazard protection as well as building assets. As much as a fifth of all spending on health care is now made through employer-sponsored plans.[2] Pensions also result in a progressive redistribution of wealth that favors those at the lower end of the income scale who do not tend to save much out of current income.

This redistribution can be demonstrated by comparing data on pension coverage and income from savings as reported in the 1983 Health and Human Services (HHS) and Employee Benefit Research Institute (EBRI) Current Population Survey (CPS) Pension Supplement, the best available source of information on pension coverage. Direct information on savings would be preferable to the data on income from savings, but it is not available on a current basis.

Accumulated pension benefits constitute the major form of savings for more than half of all persons with pension coverage. According to the CPS,

7

TABLE 2

Distribution of Employees with Pension and Health Coverage

by Earnings

Earnings	Employees with Pension Coverage, 1983		Employees with Health Coverage, 1983	
	Total (in millions)	Percent	Total (in millions)	Percent
Less than $20,000	27.9	59.0	83.7	74.3
$20,000 to $49,999	18.1	38.0	26.2	23.2
$50,000 and over	1.4	2.9	2.7	2.4
Total a/	47.4	100.0	73.0	100.0

SOURCE: EBRI tabulations of U.S. Census Bureau Current Population Survey, 1983 and EBRI-HHS Current Population Survey Pension Supplement.

a/ Detail may not add to totals due to rounding. Totals include only those health and pension plan participants who reported their earnings in the Survey. When those not reporting their earnings are added, coverage totals are higher.

TABLE 3

Net Lifetime Pension-Related Tax Benefit Shares
Among Employees Aged 25 to 34

Income[a]	All Persons (Percent)	Pension Participants (Percent)[b]	Lifetime Tax Shares by Income Class[c] (Percent)	Lifetime Pension Benefit Tax Shares by Income Class (Percent)
$20,000 or less	61	53	42	24
$20,001 to $50,000	34	41	42	53
$50,001 or more	5	6	16	22

Source: EBRI calculations based on PRISM simulation results.

[a]Total 1979 income in 1983 dollars.
[b]Includes not only those who were pension participants in 1979, but also those in this age group who are projected to acquire pension coverage later in their careers.
[c]The share of lifetime taxes paid by those with base-year incomes below $50,000 is higher than their share of current-year taxes, because their lifetime incomes are higher than their current-year incomes. In 1982, taxpayers with incomes over $50,000 paid 35.4 percent of total income taxes. U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income Bulletin, Winter 1983-1984 (Washington, D.C.: Internal Revenue Service, 1984), p. 20.

more than 40 percent of the labor force reported no savings income in 1983 (table 4). This group's average income was $9,651, just under half the average income of those reporting some asset income. Some 55 million workers, including almost half of the group reporting little or no savings income on the CPS, were covered by employer pensions in 1983. Pensions thus constituted a net increase in savings for these workers. Assessments of pension-related tax policies should consider the net increase and redistribution of wealth that results from expanded pension coverage.

What Does Society Get in Return?

Tax benefits are not the only advantage received by pension participants. Whatever the revenue cost of the pension-related tax-code provisions, sound retirement policy design requires that this cost be measured against the social benefit of increased savings and higher benefit levels.

Increased savings. Pensions both increase and reallocate total savings. If pension contributions were received as cash income, total saving would decrease. The drop, moreover, would be relatively greater among lower- and moderate-income employees. While nonpension saving is concentrated among relatively high-income individuals, pensions are distributed broadly among income groups.

Pensions also change the distribution of saving among investment vehicles. Nonpension saving consists primarily of liquid saving deposits and investments in owner-occupied homes or other consumer durables. Pension funds, in contrast, are invested in securities that finance productive capacity and employment. Pension funds have grown to be the single largest supplier of investment funds to financial markets. At a time when unmet

TABLE 4

Savings, Pension Coverage, and Income, 1983

Savings Status[a]	Employees Covered[b] (Millions)	(Percent)	Employees Not Covered (Millions)	(Percent)	Average Annual Income (Dollars)	(Percent)
No savings	18.2	19.0	20.6	21.5	$ 9,661	40.5
Some savings[c]	36.9	38.4	20.3	21.1	19,209	59.5
Total	55.1	57.4	40.9	42.6	15,338	100.0

Source: EBRI calculations based on preliminary data from the Bureau of the Census, Current Population Survey (May 1983).

[a]Individuals are classified as having some savings or no savings based on whether or not they reported any asset income in response to the survey questions. Asset income includes interest, dividends, rents, and royalties.
[b]Coverage refers to public- and private-sector pension plans and includes holders of IRA or Keogh accounts.
[c]Includes individuals reporting negative asset income (i.e., decreases in asset values).

capital financing needs are emerging throughout the economy, the fact that pension funds provide long-term capital gives them an important role in economic policy.

Increased Retirement Income. The availability of a pension often means the difference between subsistence and the ability to maintain pre-retirement living standards in retirement. Recent EBRI research projects that over the next forty years real retirement incomes will more than double. The average annual retirement income for those reaching age sixty-five in the 1980s is projected to be $13,376 per household in 1983 dollars. It is expected to increase to $26,802 for those retiring between 2010 and 2019.[3] Average employer pension benefits will increase from $5,315 for those retiring in the 1980s to $12,417 for those retiring betweeen 2010 and 2019. The proportion of new retiree households receiving pension income will grow from 37 percent in the 1980s to 71 percent by 2019.[4]

Tax payments by retirees will reflect this income growth. Pension beneficiaries retiring in the 1980s will pay an average of $15,808 in taxes (1983 dollars) on their benefits over the course of their retirement.[5] Pension beneficiaries retiring between 2010 and 2019, in contrast, will pay an average of $44,672 in taxes (1983 dollars) on pension benefits during their retirement.

Retirees not only receive larger retirement incomes as a result of employer pensions, but their benefits are more secure due to legally mandated advance funding. This security is all the more important as debates over the fiscal stability of the Social Security System continue. Social Security benefits and employer pension benefits complement each other. As pension benefits increase, Social Security benefits become a smaller share of

retirement income. If public policy continues to encourage increased pension coverage and benefit levels, the pension system could reduce the pressure for ever-increasing Social Security benefits.

Alternative Ways to Accomplish the Goals of Pension Policy

Some have suggested that the goals of employer pensions should be accomplished using other policy approaches. Two of the alternatives frequently suggested are expanding the allowable deductions for IRAs and increasing benefits under the Social Security program.

Employer-provided pension coverage is more widespread than individual retirement account (IRA) participation. Preliminary EBRI results from the HHS-EBRI CPS Pension Supplement suggest that middle- and higher-income individuals were the primary beneficiaries of the broadening of IRA eligibility. An estimated 31 percent of households reporting incomes of $15,000 or higher hold IRA accounts, compared with 9 percent of households with incomes below $15,000. By comparison, almost five times as many workers earning less than $15,000--43 percent--are covered by employer pensions. Since IRAs by their very definition do not have any nondiscrimination standards protecting the interests of those at the lower end of the income scale, expanding IRA limits would provide nothing for these households.

Expanding the Social Security program at the expense of employer pensions would present a different set of problems. Most researchers agree that the Social Security payroll tax as it is currently constituted is regressive. The American people would almost surely demand that the tax be restructured if it were to increase significantly. It is unlikely, furthermore, that the federal budget system would be able to tolerate the spending and tax increases that would be necessary if Social Security were to

become the sole guarantor of post-retirement living standards across the income spectrum.

Flexible Compensation Plans

The labor force is changing rapidly. Census data show that over the last decade, the proportion of single-adult households with children increased by one-third and over half of married women are in the labor force. These households have different benefit needs than the traditional single-earner, two-parent family. Many of these households need child care, and the health- and life-insurance needs of a two-earner family may be different from those of two single employees separately.

Flexible compensation plans have emerged as some employers' effort to respond to the needs of a diverse work force without adding to compensation costs to accomodate each additional group.[6] Most flexible compensation plans allow employees to trade benefits in one area for increases in other benefits. A two-earner couple, for example, can trade redundant health coverage for other benefits such as dependent care, increased life insurance, or added vacation time.

Flexible compensation plans are a relatively new development in employee benefits that is now becoming fully delineated. While some flexible compensation plans existed as early as 1972, Section 125 of the Internal Revenue Code was enacted in 1978 to extend the statutory protection from taxation that applies to other employee benefits to plans that give employees some choice over the mix of employer-provided benefits they receive. The statutory authority for these plans has been in place for six years, but the Administration issued preliminary regulations governing the implementation of these plans in May of this year.

Cafeteria plans, as they are also called, have grown considerably since they were first authorized. In a recent variation of these plans, about a third contain reimbursement accounts or flexible spending accounts (FSAs). FSAs allow employees to pay for unreimbursed medical expenses and some other benefits with pre-tax dollars. Such accounts are used to cushion the impact of a change in the employer's health insurance plan that might otherwise be seen as a benefit takeback. An estimated 1.5 million employees now participate in plans with flexible spending accounts alone, and as many as five million may be participating in cafeteria plans as a whole.

The Congress and the Administration have recently become concerned about the potential revenue impacts of flexible compensation programs that incorporate FSAs. Estimates of the federal revenue effects of FSAs differ widely. This divergence of estimates stems from differing assumptions about the design of these programs, distribution of participants among various types of programs, and the elections that participants make. FSAs instituted in conjunction with a leaner health plan probably contribute to slowing down the growth of benefits as a share of compensation because health care costs are the fastest-growing employee benefit.

Employers with flexible compensation plans have found that the ability to choose increases employees' satisfaction with their benefits even when the dollar value of the benefits package is unchanged. This can reduce the pressure on employers to increase benefits to maintain a competitive compensation package. The ability of employers and employees to use flexible compensation to contain benefit cost growth suggests that these plans can have important macroeconomic effects by stabilizing benefit growth and labor costs. Stabilizing benefit growth will keep wages and salaries a constant

share of total compensation. This would mean that a constant share of total compensation would be received in a taxable form. Stabilizing labor costs, in turn, can contribute to reduced production costs throughout the economy.

Recent Legislative Actions and Prospects For the Future

Employee benefits issues have played a major role in recent tax policy debates. For example, in the Tax Reform Act of 1984, the Congress made significant changes in at least sixteen areas of employee benefits. These included:

> employee stock ownership plans; cost-of living adjustments in pension plan limitations; individual retirement accounts; group term life insurance purchased for employees; funded welfare benefit plans; unfunded deferred benefits; distributions in qualified pension plans; top-heavy plans; estate-tax treatment of qualified pension plan benefits; pension plan rules for affiliated service groups, employee leasing arrangements, and collective bargaining agreements; cash or deferred arrangements; treatment of certain medical and other benefits under section 415; the statutory treatment of certain employee benefits; pension-plan terminations; voluntary employee benefits associations; and rules governing multiemployer plans.

The importance of employee benefits in tax policy promises to continue as the Congress tries to deal with projected federal deficits. Both the Congress and the Administration have expressed considerable interest in basic reform of the personal income tax. At least a dozen basic tax reform proposals were introduced in the 97th Congress and more were introduced in the 98th Congress. President Reagan has also asked that the Treasury department analyze basic tax reform options and prepare a report by December 1984.

In general, basic tax reform proposals would lower marginal tax rates and expand the income tax base.[7] Basic tax reform proposals offer ways to restructure--not lower--the nation's tax bill. Most proposals do not envision widespread tax cuts, but would instead change the distribution of tax liability among individuals. This would be done by expanding the tax base to eliminate many tax preferences in current law, including those governing the tax treatment of employee benefits. With a broader tax base, marginal tax rates on income could be lowered.

At the heart of the basic tax reform movement is the widespread belief that the tax system is unfair and inefficient. The proliferation of tax preferences can mean that differences in tax liability among individuals stem as much from the ability to manipulate the tax system as from differences in ability to pay. Energy is spent utilizing tax preferences and loopholes that could be spent on more productive activities. High marginal tax rates encourage taxpayers to seek out tax-favored sources of income--capital gains, for example--and tax-favored uses of income, such as housing. As a result, investment and other economic decisions are often driven by tax needs as much as by economic returns and productivity considerations. An advantage often cited for expanding the tax base and reducing marginal tax rates is eliminating this effort by making the tax code more neutral in economic decisions.

The arguments for broadening the tax base have attracted a wide range of political support. Conservatives support broadening the tax base as a way of eliminating the income-earning disincentives and market interference of high marginal tax rates. Liberals support broadening the tax base as a way of eliminating tax-code provisions perceived to benefit primarily the rich.

Recent tax-reform debates have centered around the comprehensive income tax and the consumption tax.[8] The basic premise behind the comprehensive income tax is that individuals should be taxed on the value of what they produce, as represented by income. A comprehensive tax attempts to tax both actual and imputed income. Comprehensive income tax proposals include in taxable income not only cash wages but also all other items of value received by the employee as compensation.

The basic premise behind the consumption tax is that individuals should be taxed not on the economic value they generate but rather on what they use up--or the share of income that is not saved. The consumption tax would exclude all forms of saving from taxable income until the funds were used for consumption. The consumption tax would tax all employer contributions for benefits that do not result in saving. This includes various employee benefits that provide insurance protection, but does not include pension or capital accumulation plans, since they result in saving.

Three recent legislative proposals implement these principles. These proposals illustrate some of the tradeoffs in basic tax reform. All of them combine tax rate reduction with tax base expansion, with implications for most employee benefits.

Comprehensive Income Tax

Senator Bill Bradley (D-NJ) and Representative Richard Gephardt (D-MO) have introduced a comprehensive income tax proposal (S.1421/H.R.3271). It would raise the same amount of revenue as current law by using only a three bracket tax-rate structure: 14, 26, and 30 percent. The reduced rate structure would be financed by eliminating or cutting back approximately forty current-law tax preferences. Tax preferences that would be retained include

In general, basic tax reform proposals would lower marginal tax rates and expand the income tax base.[7] Basic tax reform proposals offer ways to restructure--not lower--the nation's tax bill. Most proposals do not envision widespread tax cuts, but would instead change the distribution of tax liability among individuals. This would be done by expanding the tax base to eliminate many tax preferences in current law, including those governing the tax treatment of employee benefits. With a broader tax base, marginal tax rates on income could be lowered.

At the heart of the basic tax reform movement is the widespread belief that the tax system is unfair and inefficient. The proliferation of tax preferences can mean that differences in tax liability among individuals stem as much from the ability to manipulate the tax system as from differences in ability to pay. Energy is spent utilizing tax preferences and loopholes that could be spent on more productive activities. High marginal tax rates encourage taxpayers to seek out tax-favored sources of income--capital gains, for example--and tax-favored uses of income, such as housing. As a result, investment and other economic decisions are often driven by tax needs as much as by economic returns and productivity considerations. An advantage often cited for expanding the tax base and reducing marginal tax rates is eliminating this effort by making the tax code more neutral in economic decisions.

The arguments for broadening the tax base have attracted a wide range of political support. Conservatives support broadening the tax base as a way of eliminating the income-earning disincentives and market interference of high marginal tax rates. Liberals support broadening the tax base as a way of eliminating tax-code provisions perceived to benefit primarily the rich.

welfare, and "fringe" benefits, however, would no longer be tax deductible as an employer compensation expense. Employees would not be taxed on the value of employer contributions for nonpension benefits since the employer would already have paid tax on these contributions. Since cash compensation would continue to be a tax-deductible cost of doing business to the employer, the employer would presumably have an incentive to offer more compensation in cash than in benefit contributions.[9]

Comparing Major Basic Tax Reform Proposals

All three legislative proposals, though they are based on different tax principles, would result in similar treatment for many benefits. Tax preferences for most employer-provided benefits would be eliminated. Employer contributions for nonpension benefits would be treated as taxable income. Had such a provision been in effect in 1982, an estimated $72.9 billion would have been added to that year's taxable employee compensation (Table 5). Federal tax revenues, as measured by the U.S. Treasury's calculations of tax expenditures attributable to these benefits, could have been as much as $19 billion higher, assuming current-law tax rates.[10]

The primary differences among these proposals are in their treatment of retirement income programs. The DeConcini and Hatfield proposals would continue the current-law treatment of pensions. The Bradley-Gephardt proposal, however, would impose more restrictive benefit and contribution limits under Section 415 of the Internal Revenue Code. Limits on allowable benefits in defined-benefit plans would be reduced from $90,000 under current law to $60,000; contribution limits in defined-contribution plans would be lowered from $30,000 to $20,000; and indexing of these limits would be eliminated. The immediate effects of this change would be felt primarily by

TABLE 5

Employer Contributions and Treasury Department Tax Expenditure Estimates for Selected Voluntary Benefits a/

(in billions of dollars)

Benefit Contributions	Employer Cost b/ (1982)	Federal Tax Expenditures (1982)
Health insurance	$65.7	$16.4
Life insurance	7.2	2.0
Accident and disability insurance	NA	0.1
Other employer-provided benefits: child care educational aid legal services plans	NA	0.6

SOURCES: Employer cost data from table 6.15 in U.S. Department of Commerce, Survey of Current Business vol. 63, no. 7 (July 1983), p. 74. Tax expenditure data from Executive Office of the President, Office of Management and Budget, The Budget of the United States, Fiscal Year 1982, Special Analysis G.

a/ Voluntary benefits are those not mandated by law. Examples of mandatory benefits are Social Security benefits and unemployment compensation.

b/ Totals cover both private- and public-sector employees.

particular requires a long term commitment from both the employer and the employee if it is to deliver a meaningful retirement benefit. Employers will not make this commitment if they expect the terms on which it is delivered to change with every change in the political and budgetary environment. Therefore, Mr. Chairman, we ask that the Congress recognize how much it has already achieved in safeguarding the economic security of the American worker and that it renew its commitment to encouraging private provision for economic security.

NOTES

1 For further analysis of these issues, see Sophie M. Korczyk, Retirement Security and Tax Policy (Washington, D.C.: EBRI, forthcoming). See also Issue Brief "Pension-Related Tax Benefits," no. 25 (December 1983) and Issue Brief "Employee Benefits and the 1985 Reagan Budget," no. 27 (February 1984).

2 Unpublished estimate, EBRI.

3 Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: EBRI, 1982), p. 100.

4 Ibid., p. 90.

5 Unpublished EBRI tabulations of PRISM simulation results.

6 For background on flexible benefits plans and their relevance to changing employee needs, see Dallas L. Salisbury, ed., America in Transition: Implications for Employee Benefits (Washington, D.C.: EBRI, 1982); Issue Brief "Flexible Compensation and Public Policy," no. 24; and Chapter XXII, "Flexible Compensation Plans" in Fundamentals of Employee Benefit Programs (Washington, D.C.: EBRI, 1983).

7 For a detailed discussion of the mechanics of basic tax reform, see EBRI Issue Brief "Basic Tax Reform: Implications for Employee Benefits," no. 28 (March 1984).

8 Both tax systems would require detailed judgments about the treatment of various sources and uses of income. Both would also create some formidable implementation and transition problems. These problems and issues are treated in detail elsewhere. For a discussion of employer pensions in basic tax reform, see Sophie Korczyk, Retirement Security and Tax Policy (Washington,

D.C.: EBRI, forthcoming). For a wide-ranging discussion of theoretical and practical issues in basic tax reform, see U.S. Department of the Treasury, Blueprints for Basic Tax Reform (Washington, D.C.: Government Printing Office, 1977).

9 This argument is advanced in Robert E. Hall and Alvin Rabushka, Low Tax, Simple Tax, Flat Tax (New York: McGraw-Hill Company, 1983), p. 90.

10 Actual revenue gained from removing tax preferences for employee benefits would be lower because tax rates would be lower and because employers and employees would change their behavior to avoid taxes.

11 See Retirement Security and Tax Policy, Chapter VII.

KTVY
500 East Britton Road P.O. Box 14068
Oklahoma City, OK 73113 405-478-1212

Lee Allan Smith
Vice President / General Manager

July 23, 1984

Committee on Finance
United State Senate
Room 219
Dirksen Senate Office Bldg.
Washington, DC 20510

Gentlemen:

On July 26, 27, and 30, it is our understanding the Senate Finance Committee will hold hearings on certain aspects of the taxation of so-called fringe benefits.

On behalf of KTVY, Inc., we would like to go on record as being in support of the current tax-favored treatment of employee pension and welfare benefits. Our company is opposed to changing the tax law to treat employer-paid cost of life, disability, health care, pension and other benefits as income to employees, or changing the tax laws to eliminate the deductibility of employer contributions.

Sincerely,

Lee Allan Smith

LAS:ll
cc: The Honorable David L. Boren
United States Senator
Member, Senate Finance Committee

NORRIS M. LANGFORD JR. PSC
NORRIS M. LANGFORD JR. DMD
4406 ST. RITA DR.
LOUISVILLE, KY. 40219
PRACTICE LIMITED TO ORTHODONTICS

9-26-84

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance Rm219
Dirksen Senate Bldg.
Washington DC 20510

Dear Mr DeArment,

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance

Sincerely,

Norris M. Langford

NORRIS M. LANGFORD JR. PSC
NORRIS M. LANGFORD JR. DMD
4406 ST. RITA DR.
LOUISVILLE, KY. 40219
PRACTICE LIMITED TO ORTHODONTICS

7-26-84

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management:

by Norris M. Langford Jr.

If Private employee benefit plans are eliminated then there will be just that many more people who will have to eventually live off the government and the tax payers. The amount anyone can accumulate in an IRA is a drop in the bucket compared to the money it will take for retirement in the future, therefore tax incentives are needed especially for the Private employee. If these plans are eliminated, there will be no retirement income for the Private employee when compared to IRA's and saving accounts.

Advertising • Marketing • Public Relations • Bearden Park Circle • Knoxville, TN 37919 • 615-584-6121
Lavidge & Associates Inc.

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

RE: Hearing on Taxation of Employee Benefits, July 26, 27 and 30

Dear Mr. DeArment:

We understand from our insuror that the Committee on Finance, of which you are Chief Counsel, will be considering possible modifications or changes in current tax law which would have an effect on employee fringe benefit programs.

We are an advertising agency employing approximately 40 people. We have been in business 34 years. During that time we have, as a company expense, paid for benefits on an equal basis to all employees, regardless of race, sex, or position in the company. We pay a cost of hospitalization, major medical, group life, and income continuation insurance, based on a single scale which applies equally and proportionally to everyone.

This protection we found to be very important to all the people here at our company. We have had employees who suffered over an extended period of time with cancer and subsequently died. We have had female employees for whom this benefit program has paid a substantial cost of child birth and in some instances care. We have seen the program provide an important cushion for families who have lost someone who was covered under our policies.

Over the last several years, we have had significant increases in cost because the cost of hospitalization and major medical has trended upward. We have also had significant increases in cost because of increased funding requirements for maintaining Social Security. These increases in cost have placed substantial hardship on our company's operations, particularly our cost of doing business. We would hope that those conditions which contribute to more regulation and higher cost may be modified and decreased. It would be our recommendation to you that additional rules and regulations at any level of government will not add increased benefits to employees.

We have found that our insuror, Pilot Life, has been excellent in its service and management of this important employee benefit for our people. In conclusion, we feel that employee benefits are essential

to the economic security of our employees, and that the private enterprise insuror is responsible and is the most effective vehicle for assisting us to accomplish these goals.

Very truly yours,

LAVIDGE & ASSOCIATES INC.

Arthur W. Lavidge
President

AWL:acp

cc: W.D. Blalock, Pilot Life

LEAGUE INSURANCE COMPANIES

Corner Providence Dr. & Greenfield Rd. • Southfield, Michigan
Mailing Address G.P.O. Box 430-A • Detroit, Michigan 48232

TELEPHONE NUMBERS (AREA 313)
CLAIMS 557-8200
POLICYHOLDER SERVICE 557-1300
ALL OTHER CALLS 557-3210

July 26, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20410

Dear Mr. DeArment:

We have been advised that the Subcommittee on Taxation and Debt Management of the Senate Finance Committee intends to hold hearings on the subject of employee benefits on July 26, 27, and 30.

On behalf of League General Insurance Company, a subsidiary of the CUNA Mutual group of insurance companies which serves the insurance needs of credit unions and credit union members, we would like to submit the attached statement. This memorandum supports changes in the Internal Revenue Code which would result in employee group auto insurance being given the same favorable tax treatment which is given to other employee fringe benefits.

We very much appriciate the opportunity to present a written statement on this issue and would, of course, be happy to answer any questions or provide any amplification of this statement which the committee may wish.

Sincerely,

James M. Edwards

James M. Edwards, Vice President
General Counsel

JMD/gdt

enclosure

MEMORANDUM ON THE NEED TO AMEND THE INTERNAL REVENUE CODE TO PERMIT EMPLOYER-EMPLOYEE GROUP AUTOMOBILE INSURANCE

The Internal Revenue Code currently taxes any contributions made by an employer providing group automobile insurance for his employees. Such taxation has effectively stifled the development of group automobile insurance as an employee fringe benefit in the United States. Only a few employee group automobile plans now exist.[1] This memorandum discusses why the code should be amended to treat employee group automobile insurance exactly the same as the code treats other employee benefit and welfare programs such as group life, accident and health insurance.

Group Auto Insurance As a Fringe Benefit

Group life and health insurance and other welfare benefits for employees and their dependents have long been accorded special tax treatment - contributions made by an employer for such benefits are not taxable to the employee. Indeed, such treatment was originally given to encourage the development of employer-employee group benefits. The rapid growth and current popularity of such plans attest to the success of the group approach. Millions of workers and their families in the United States currently enjoy the financial protection and security of employer-paid group insurance.

---

[1]There are "mass marketing" auto insurance plans which are essentially individual policies paid for by the employee under payroll deduction. Such plans are not "true" group insurance since they do not include employer contributions, "group rates," coverage for all employees and other provisions similar to regular group accident and health plans.

Today, there are even stronger arguments that group auto insurance should receive similar tax treatment. Group auto insurance is a logical direct employee benefit. The vast majority of employees in the United States are totally dependent on the automobile for transportation to and from work. Therefore, employees face a significant exposure to financial loss while traveling to and from their places of employment. (Such exposure even exists if the employee rides in a car pool, an increasing phenomenon today.) The relationship of the automobile to employment is at least as strong as those group plans which provide benefits to employee dependents, e.g., health insurance. Moreover, unlike group accident and health insurance, automobile insurance is becoming legally compulsory, particularly with the development in many states of compulsory no-fault automobile insurance. As Professors Kimball and Denenberg, in their comprehensive study of mass marketing in property and liability insurance for the Department of Transportation, pointed out in 1970:

> Automobile insurance is daily coming closer to a form of social insurance that for all practical purposes is both essential and compulsory.

Potential Economic Impact of Group Auto Insurance

The technology for group auto insurance exists even though the absolute size of cost savings is not precisely known. However, the opportunity for a reduction of costs and improved efficiency under a group approach is substantial. Moreover, group insurance has a significant anti-inflationary impact

because it is more efficient - auto insurance benefits can be produced at lower costs, or higher benefits can be issued at the same level of costs. The improvement in efficiency can be achieved from several sources.

Marketing and Acquisition Costs

Professors Kimball and Denenberg, in their study of property and liability insurance, criticized the high cost of individual insurance:

> Insurance executives and experts generally acknowledge, especially if they have no axes to grind, that in much of property and liability insurance, acquisition costs [for individual insurance] are now uneconomically high - i.e., that they are too high for the services rendered.

Marketing and sales costs can be reduced substantially under group insurance as compared to individual auto insurance - at least 50 percent. For example, there is at least a 50 percent difference in the sales costs of individual auto insurance and group accident and health insurance. These costs include such items as agent commissions and salaries and other expenses of adding individual policies to the books.

Underwriting and Selection Costs

The costs of underwriting - the expensive process of evaluation, selection and pricing of individual applicants by the insurer (which now amounts from 12 to 15 percent of the premium) - can be reduced under the group arrangement. Much of the tedious and expensive process of considering individual applications can be eliminated.

Administrative Costs

The group technique lends itself readily to the use of data processing and computer systems. Administrative and maintenance expenses of the insurer are thus reduced.

Coordination and Integration with Other Benefits

One of the enormous unnecessary expenses in the employee benefit system in the United States is the overlapping and duplication of automobile insurance benefits and other group employee accident and health benefits. The passage of no-fault auto insurance laws in many states has highlighted this problem. This duplication amounts to billions of dollars a year. For example, it has been estimated that in Michigan alone, duplication of health and disability benefits and auto insurance benefits is $60 million.

Employee group auto insurance enables automatic integration of auto no-fault benefits into the overall employee benefit package. Such coordination not only produces a more rational benefit system but also results in dramatic savings.

Loss and Claim Economies

The potential for achieving economies in losses and claims also exists under group auto insurance plans. For example, through the group purchasing of repair services and parts, the costs of automobile damage and repairs may be reduced. Any effort to hold down the hyperinflation of auto repair costs would be a breakthrough.

Group auto insurance also increases the opportunity and effectiveness of loss prevention activity. Like workmen's compensation, group rating gives direct incentive to the employer and the insurer to engage in safety education, driving courses, and other loss prevention services. There is added incentive since a reduction in auto accidents and losses also reduces losses under other employee benefit programs as well as the opportunity of reducing employee absenteeism.

Professors Kimball and Denenberg cite another potential cost reducing advantage of group auto - the effect of "group discipline" on claims:

> The group, realizing that both rates and liberal coverage are dependent on group experience, have a substantial stake in exercising a salutory discipline on the zeal of claimants to "take" the distant insurance company. This helps to solve one of the pervasive problems of the whole insurance system, which is largely a consequence of the impersonality of our society. In an almost paradoxical way, mass marketing can reduce that impersonality and thus exercise greater discipline by focusing on smaller groups than the entire insured population. Thus, an insured may not only be more restrained in his claims, but may even be more careful in his conduct because of his realization that the group to which he has a feeling of loyalty will suffer if he has a loss.

The reduction of accidents is not only a direct social benefit, but it also decreases the demand for medical and auto repair services. It thus relieves the extreme inflationary pressures on the prices of these services.

Other Advantages

Other direct and indirect advantages of employee group auto insurance may be listed. The group mechanism results in broader eligibility for auto insurance. That is, many individuals who now have difficulty obtaining protection in the individual insurance market become eligible under a group plan.

This is analagous to group life and health insurance where many employees are covered who would ordinarily be uninsurable under individual policies.

Coverage under group policies may also be guaranteed for the employees, thus reducing the irritating problems of cancellation and nonrenewal of individual auto insurance. Group auto insurance also permits more adequate coverage for employees. Many individuals currently may purchase only the minimum amounts required by law under individual policies.

Conclusion

The opportunity for significant cost savings, improved efficiency, greater benefits and service exists in employee group automobile insurance. However, this innovation has effectively been undeveloped because of the current tax treatment of such plans. A change in the law to treat group auto insurance in the same manner as other employee benefit plans is sound economic and social policy.

STEEL WORKERS SINCE 1896

LEWISTEEL

LEWIS Steel Works, INC.

● GARBAGE CONTAINERS, LOGGING AND FARM EQUIPMENT ●

PHONE 404 547-6561

WRENS, GEORGIA 30833

July 30, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg.
Room SD-219
Washington, DC 20510

Dear Sir:

I, as an employer, feel that it is imperative for us to maintain certain employee benefits shared by each other. This gives us both a sense of pride in ourselves.

Further, in many cases, if these benefits were not given and shared by employers, many employees would go lacking in that personal sought benefits prove to be much more expensive than group plans and often times, group benefits carry better and more liberal coverage.

Within our company, officers and employee's have identicial coverage, with absolutely no reference to personal salary, title or gender.

By having employer shared benefits, it gives employees a greater sense of security for themselves and their families, and also promotes work iniative among employees; realizing their employer does care about them.

Having employer shared benefits also helps our community economically, in that when these undesirable expenses come upon us, we know that at least the greater part of this expense is met, therefore we feel more free in supporting our local businesses. Also, we have the security of knowing we are not likely to become dependent on the tax paying welfare system because we have employee/employer shared benefits.

Some of our basic coverages are:

Maximum Coverage	$1,000,000.00	
Doctor Charge Surgery	100%	When not confined
	80%	When confined
Second Opinions	100%	When not confined
	80%	When confined

Pre admission testing	90%	
Accidental injury coverage	90%	When not confined
	80%	When confined
Other expenses	90%	When not confined
	80%	When confined
Maximum Covered Hospital Room		Semi-private

Private enterprise has built an effective and efficient arrangement covering the needs of employees through employer benefit programs. It is far superior to any thing the government could replace it with. It should not be systematically taken from us in the name of greater tax revenues. The employee need is there and must be met. If private enterprise is not encouraged to meet these needs, the government must. And we believe the ultimate price to our nation will be greater.

Yours truly,

Lewis Steel Works, Inc.
R.A. Lewis, Pres.

WRITTEN STATEMENT OF
LIBERTY GLASS COMPANY

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
HEARING ON FRINGE BENEFITS
July 26-30, 1984

We are grateful for the opportunity to submit written comments to the Subcommittee concerning private employee benefit plans.

Liberty Glass Company maintains a comprehensive program that provides benefits for employees and their beneficiaries and eligible dependents in the event of retirement, disability, death, and medical treatment. The highlights of these benefits are as follows:

401(k) PLAN: All salaried employees are eligible to participate; the Company contributes an amount equal to 3% of the employee's gross annual salary and the employee may make an elective contribution of up to 9½% of gross annual salary (subject to certain limitations required by law); the Company matches up to 2½% of the employee's elective contribution. The employee's contribution is achieved through payroll deduction. Distribution of funds in the employee's account occurs upon retirement, separation from employment, or death.

PENSION PLAN: All employees who now are or were represented by a union participate in this defined benefit plan. The amount of the benefit is based upon the employee's labor grade preceding retirement and his years of service. There is a provision for normal, early, and disability retirement.

COMPREHENSIVE GROUP INSURANCE: This plan covers all employees and their eligible dependents; the plan covers medical expenses, including dental, orthodontic, eye and ear care. There is a $200

deductible for the individual covered member and a co-insurance provision.

SHORT AND LONG TERM DISABILITY: All employees are covered under the short term disability program which pays a percentage of the employee's salary up to a maximum disability period of 26 weeks. Salaried employees are covered by a long term disability program which commences after the short term program ceases.

GROUP AND LIFE AND A D & D INSURANCE: All employees are covered under this program. The amount of the coverage depends upon the employee's salary.

The above benefits, or something similar to such benefits, have been provided to Liberty employees for many years. They protect the employee and his family from burdensome financial loss due to injury, illness, disability, or death, as well as provide the employee with future financial security. Employees don't rely on their personal savings to protect them against such losses. Since most of Liberty's employees are average wage earners, they would not be able to affort these benefits if they had to obtain them on their own.

We respectfully request that the members of the Subcommittee carefully consider the adverse impact that any changes in the tax treatment of fringe benefits would have upon the employees of Liberty Glass Company and their families as well as millions of other working men and women.

Respectfully submitted,

D. L. Beyer

David L. Beyer
Vice President - Finance

August 10, 1984

Liberty National Bank and Trust Company

Kennedy H. Clark, Jr.
Senior Vice President

Submitted as Part of the Record of the Hearings on Employee Fringe Benefits Held on July 26, 27 and 30, by the United States Finance Committee Subcommittee on Taxation and Debt Management

By: Kennedy H. Clark, Jr.
Senior Vice President and Trust Officer For
Liberty National Bank & Trust Company of Louisville

The idea that the private employee benefit plan system in this country no longer needs or deserves tax incentives is inaccurate.

Liberty National Bank & Trust Company as a corporate employer sponsors two funded, trusteed employee benefit plans, each of which serves a distinct and important purpose for the approximately 1200 employees participating. One is a thrift savings plan (defined contribution) which has as its stated purpose encouragement of employee savings through a program by which the company matches employee dollars saved. It serves the important social and economic purpose of employee thrift by providing a tax sheltered environment coupled with the convenience of payroll deduction and company added funds. The second program is a non-contributory IRS approved pension plan (defined benefit) which provides retirement income in addition to that paid by Social Security. There is no out-of-pocket cost to employees participating in this program - Social Security retirement benefits alone do not provide a sufficient income replacement ratio for the majority of our employees.

For several years our employees have had what amounts to a personal choice between participation in our thrift savings plan and establishment of an IRA account. Because of the ease of savings and the "bonus" of matching funds, the large majority of employees have chosen to use the thrift plan. Outside of such programs, the voluntary savings rate of Americans in general is very low compared to other countries. The elimination of tax incentives for qualified plans would have a negative impact on the economy of this country. I

would certainly not want to be the one to tell our employees that all of a sudden their retirement and thrift savings plans are being terminated since, thanks to Congress, their tax advantages no longer existed.

From another point of view, Liberty, through its Trust and Investment Group, handles asset management and administrative matters for qualified employee benefit plans of some 400 employers. In this capacity we are also "on the front line" for plan management. We serve first the participants in these plans and then the sponsoring employers. Our loyalties are clearly delineated by laws and regulations. We see benefit levels of many plans and know that recent contribution limitations have become a disincentive to the higher skilled and paid employee. As you are probably aware, recent legislation mandates certain minimum levels of funding for lower paid employees. Just because virtually every benefit plan contribution formula is tied, some way or another, to salary, is no reason to believe plans in general primarily benefit higher paid employees.

The controls are in place, and really have been since 1974, to protect all levels of participating employees. The concept of eliminating tax incentives for private employee benefit plans would indicate a person with an agreeable opinion toward "throwing out the baby with the bath water". Perhaps a more useful project for this Subcommittee would be to hold hearings on mismanagement of public pension funds.

STATEMENT OF
LINCOLN NATIONAL CORPORATION

TAX TREATMENT OF
EMPLOYEE BENEFITS

SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT

August 13, 1984

August 13, 1984

STATEMENT OF
LINCOLN NATIONAL CORPORATION

Lincoln National Corporation of Fort Wayne, Indiana appreciates the opportunity to submit comments on the tax treatment of fringe benefits for inclusion in the record of hearings held by the Subcommittee on Taxation and Debt Management on July 26, 27, and 30, 1984.

Lincoln National Corporation is an Indiana insurance holding company. Its subsidiaries, which include The Lincoln National Life Insurance Company, Lincoln National Pension Insurance Company, and Security-Connecticut Life Insurance Company, offer a broad range of life, health, and other insurance products, and related services. With total assets in excess of ten billion dollars, the Lincoln National companies rank as one of the largest providers of insurance and financial services in the United States. Accordingly, our comments on the tax treatment of fringe benefits reflect our experience both as an employer of over 14,000 employees and as a major provider of benefit programs to other employers.

Present law provides tax incentives for employers to establish benefit plans to protect workers and their families against loss of income or high expenses resulting from retirement, disability, illness and death. Although the primary purpose of the Internal Revenue Code is to raise revenue, Congress has also used it as a means to encourage desirable public objectives. The private sector has responded to this encouragement by providing socially-valuable benefits for American workers and their families. We believe that the current system is working well and should be continued.

We believe that it is appropriate to provide tax incentives for employee welfare and retirement benefits. As a major provider of insurance, we are particularly aware of the tragic consequences of catastrophic illness, disability or premature death, and of the financial strain of retirement. Most Americans share these concerns, which often can be the source of anxiety and insecurity. By providing these fringe benefits for workers and their families, responsible employers can protect their employees from the debilitating effects of economic insecurity. Sick workers can be provided with proper medical attention, thereby accelerating their return to the workplace. And employers can strengthen the employer-employee relationship through concern and protection for the welfare of employees and their families. Thus, we believe that employer-provided welfare and retirements benefits improve the productivity of the American workforce.

We also recognize that many workers, on their own, could not provide for the financial strains caused by catastrophic illness, disability, early death or retirement. Employers have the purchasing power to provide more comprehensive, cost-effective benefits than workers could purchase individually. In addition, current law requires that most benefits be provided on a nondiscriminatory basis to a broad cross-section of employees, thus ensuring that a large segment of the American workforce (not just the highly compensated) has access to necessary protection.

We believe that the tax incentives for welfare and retirement benefits are amply justified on the public policy grounds of improved productivity and financial security for the American worker. We also think these objectives are best served by the flexibility inherent in a system of tax incentives. Employers are well-situated to maximize the effectiveness, and minimize the cost, of fringe benefits for workers and their dependents. The type and features of benefits needed by any given workforce depends on the characteristics of that workforce, geographic location, industry, and other factors. For example, the needs of our employees in Fort Wayne, Indiana -- who are predominantly women in two wage-earner families -- may differ drastically from the needs of another group of employees. Tax incentives for general classes of benefits permit employers to tailor programs to the needs of their employees, and to avoid the cost of unnecessary benefits.

In the absence of employer-provided fringe benefits encouraged by tax incentives, the fundamental need for these

benefits would, we believe, inevitably build pressure for broadly available government welfare benefit programs. In our view, the private sector is a more effective, and more suitable, sponsor for welfare benefits, than would be the Federal and state governments. Private enterprise has proven its ability to provide efficient programs that effectively benefit a wide cross-section of the American people, in a manner which we find is superior to that of any government program. The human value of benefits which the recipient earns, with his or her labor, financial contributions, or both, also should not be underestimated.

We at Lincoln National believe that encouraging the private sector to provide benefits which protect workers from economic insecurity and enhance productivity is good tax policy. Congress chose to provide statutory exclusions for certain fringe benefits because it believed those benefits were sufficiently important to warrant encouragement. Based on our experience both as a major insurance company and as a large employer, we agree. And we think that these public policy objectives are being realized under the current system of tax incentives.

As an example, we offer the welfare and retirement programs we provide for the approximately 4,700 employees and families of our Fort Wayne based companies. Our programs are designed to provide economic security and to promote worker satisfaction and improved business productivity. We are committed to providing our employees with quality benefits that are both socially and fiscally responsible. All of our employees are eligible to par-

ticipate in and benefit from our plans on the same basis. We regularly review the effectiveness of our programs, in terms of both benefit needs and costs, and seek to make improvements where indicated. In sum, we believe we provide a varied, cost-effective, and ever-changing mix of benefits well-suited to the collective and individual needs of our employees, which we summarize below.

Most Americans believe that medical insurance is a basic necessity. Health benefit coverage has had substantial value for workers, employers, health care providers and the government. In particular, workers are protected from the unexpected and major costs of illnesses. Group medical benefits provide access to health care services that otherwise might be unaffordable. Lincoln National provides non-contributory, comprehensive health and dental care plans for its employees, with partially contributory coverage available for dependents at the employee's option. These plans, which cover all full-time employees from the first day of employment, assure that our workers and their families have available a proper level of care to meet their health needs. If our employees were forced to purchase these plans in the individual market, they would be required to pay considerably more than our present cost per employee.

There have been several efforts to impose a cap on health care deductions or, alternatively, to include a portion of an employer's payments for health care in the income of the beneficiary. This, we believe, would only result in raising the taxes of those least able to afford it. Almost 70% of the participants

in our plan have incomes under $20,000. Lincoln National provides the same level of health coverage for each employee, regardless of his or her income. As a result, health benefits as a percentage of income are more valuable to families at lower wage levels. Placing a limitation on tax-free contributions would place a disproportionate burden on middle and low-income workers who would find it more difficult to maintain their level of benefits.

While we believe that good health benefits are essential to a worker's well-being, we also believe that employer-provided programs should encourage employees to look for safe, cost-effective health care alternatives. To foster preventive medical care, Lincoln National pays for comprehensive medical examinations every three years for its employees over age 30. In addition, in January of this year Lincoln National revised its medical benefits plan in order to promote more cost-efficient health care. The new program is designed to contain rising health care costs by encouraging employees to use cost-effective alternatives to expensive hospitalizations, where appropriate. The plan covers the entire cost of routine pre-surgery tests which can be safely performed on an outpatient basis prior to hospital admission, thereby reducing the term of the hospital stay. The plan does not pay for weekend hospital admissions unless necessary services are performed. Similarly, many minor surgical procedures can be prudently performed on an outpatient basis, and the plan reimburses the entire cost of these procedures. The plan covers the cost of obtaining surgical second opinions and requires such opinions for specified opera-

tions. The plan also is designed to encourage hospice or home care for the terminally ill, which often is a humane alternative to hospitalization. We are continuing to consider other measures that might further restrain costs in a responsible manner. We believe that a health care delivery system such as ours can provide care efficiently and at a low cost, and our health insurance contracts that incorporate similar cost containment measures have been well received by other employers.

Our view is that this approach is a more effective method of cost containment than the proposed health cap. A health cap would do little or nothing to control costs; it would simply add to an employee's taxes without directly addressing the underlying problems. We believe that innovative health care programs which encourage employees to become better health care consumers provide a better alternative. We suggest that consideration be given to whether the tax laws adequately provide incentives for the full range of possible containment measures, some of which may not be clearly excludable from income under existing provisions.

As security against temporary or permanent disabilities, Lincoln National provides income protection for its employees, after a three-month waiting period. These programs provide salary continuation at various levels for up to 8 weeks in the event of illness, up to 26 weeks in the event of short term disability, and until age 65 (age 70, if the disability commences after age 60) in the event of long term disability. When illness or disability prevents one of our workers from continuing employment, our income

protection programs help that employee to maintain a reasonable standard of living without turning to the government for assistance. This, we submit, is a socially desirable means of caring for the disabled.

Lincoln National employees are also eligible for noncontributory group life insurance coverage on the first day of active employment. Employees may purchase additional coverage equal to their noncontributory coverage at low group rates. The purpose of this program is to replace income lost in the event of an employee's untimely death. That is, group life insurance programs replace income for families of deceased wage earners for a transitional period, until the survivors are able to restructure their lives and find other means to provide for the family. By promising such replacement, we ease significant anxieties among our employees and improve their morale and productivity. Our group life insurance programs, which are automatically available to all employees, are particularly valuable for those employees with little or no other life insurance: those among our lower compensated workers (including many of our younger employees with children) who may not have sufficient discretionary income to afford meaningful individual insurance protection, and those among our older or retired workers for whom individual life insurance is unobtainable because of health reasons or prohibitive cost. The partial tax exclusion for employer-provided life insurance, which provides family security in the event of a worker's untimely death, seems well-justified to us.

The Lincoln National companies also provide other tax-favored welfare benefits designed to improve the productivity of our workers. For example, in reviewing the needs of our Fort Wayne-based employees, over 75% of whom are women, we have determined that child care assistance could be an important means for improving the quality and results of their daily work performance. Accordingly, we are in the process of implementing a dependent care assistance program effective January 1, 1985.

We at Lincoln National recognize that our employees' needs continue after retirement. Even a fiscally sound Social Security system alone cannot ensure that a worker's retirement years will be free of financial worry. Thus, private pension plans are essential if we are to meet the retirement needs of American workers. Our employer-provided retirement plan, which is one of our contributions toward security for our retirees, helps bridge the gap between Social Security and an adequate retirement income. Employees of Lincoln National are automatically enrolled in our retirement plan after they meet basic age and service requirements. Their benefits are fully vested after 10 years of vesting service. The costs of the plan are borne by Lincoln National, and benefits are computed on the basis of a final average salary, which serves to mitigate the effects of inflation during the retiree's working life.

The tax laws also permit us to offer other plans which encourage employees simultaneously to save for their own retirement and to have a direct stake in the profitability of the com-

pany. Our savings and profit sharing plan, qualified in part under section 401(k) of the Internal Revenue Code, enjoys broad participation by our employees. All employees age 21 or over with one year of service are eligible to participate in this plan, and over 60% of those who participate earn less than $20,000 a year. A participant may designate 1% to 6% of compensation for contribution to the plan on a salary reduction basis, which is matched out of profits by Lincoln National on a 25% to 150% basis as determined by the company. Additional employee contributions are permitted without a match. The participants can direct the investment of their accounts among several options, including company stock. Participants are also allocated a yearly contribution of company stock as a percentage of pay of all participants under our stock ownership plan. These plans permit us to encourage employees systematically to take responsibility for their own retirement security, and to improve productivity through employee participation in company profitability and stock ownership.

As mentioned previously, Lincoln National believes that the current system of providing employee benefits works well and should be preserved. During the last ten years, however, Congress has enacted major tax legislation on a piecemeal basis as a means of raising revenue, without always considering the other implications of such legislation. Nearly every one of these recent tax acts has altered the tax treatment of welfare or retirement benefits, sometimes to a significant degree. While many of the changes have been motivated by concerns about the Federal defi-

cits, which we wholehartedly share, we must disagree with those who consider employee benefits only a tax issue. There is no substance to the argument that benefits are provided solely to shelter income. The benefits Lincoln National provides to its employees promote a more secure, productive workforce. We further believe that employer-sponsored welfare and retirement benefit programs in general serve important public objectives. Before any further changes are made with respect to the tax treatment of these employee benefits, we strongly urge that Congress first study the fundamental objectives of employee benefits, including enhanced security for America's workers and their families, and enhanced productivity for America's businesses. Any further changes in the tax laws should then be based on an articulated national public policy for employee benefits. This policy should describe the objectives of these benefits, take account of the relative merits of the government and the private sector as the provider of fair and adequate welfare and retirement benefits, and balance revenue concerns with these other critical public concerns.

In closing, we would like to reiterate our belief that the private sector provides necessary welfare and retirement benefits more efficiently and effectively than would the government. We believe that tax incentives for employee benefits achieve desirable public objectives and are justified.

360 North Crescent Drive, Beverly Hills, California 90210 213 859-5000

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 - Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

As a major employer, Litton Industries, Inc. wishes to be placed on record as strongly advocating the current tax favored treatment of employee pension and welfare benefits.

The tax impact on all Litton employees, but particularly our lower paid workers, would be devastating if Litton's costs per employee would be considered imputed income. Frankly, our experience with contributory plans shows that many lower paid workers elect not to be covered in order to receive a slightly higher paycheck. Should employer costs be considered taxable income, we believe that lower paid workers more than higher paid workers will drop their group benefits coverage. The loss of coverage will inevitably be catastrophic for some employees.

In summary, we believe that the current tax favored treatment of employee pension and welfare benefits is highly desirable. Elimination of this treatment would be seriously affect the employees of Litton Industries, and we believe would hurt lower paid workers more than higher paid workers.

Sincerely,

LITTON INDUSTRIES, INC.

Jeffrey S. Kuehn
Manager, Group Insurance

JSK:ss

cc: T. Holgate

STATEMENT OF LORAM MAINTENANCE OF WAY INC. IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26,27 and 30, 1984

We at Loram Maintenance of Way Inc. believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees:

1. Health insurance, various options, including several HMO's.
2. Life insurance, including optional extra coverage at group rates.
3. Long term disability insurance.
4. Social security
5. Workers Compensation.
6. Unemployment, state and federal.
7. Vacations, the number of vacation days projected for benefit costs are 10 to 15 days.
8. Holidays, there are ten paid holidays.
9. A $401k tax sheltered savings plan.
10. Other benefit costs include the cost of safety glasses, physicals, safety shoes, funeral leaves, flowers for employees in the hospital and sick pay.

These benefits are available to all employees. Some like the vesting mechanism in the $401k plan depend on years of service, but none discriminate on the basis of age, sex or rank in the company.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. To this end we provide several HMO options. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Signed: R. A. Peppin

R. A. Peppin, President

1984 AUG -6 PM 1:28

Louisiana-Pacific Corporation

111 S.W. Fifth Avenue
Portland, Oregon 97204
503/221-0800

August 3, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D.C. 20510

Re: Finance Subcommittee on Taxation and Department Management Hearing on Fringe Benefits

Dear Senator Packwood:

As a major employer we are deeply concerned over the number of proposals being considered by Congress to reduce the favorable tax treatment of employee benefits.

Over the years the benefit programs sponsored by Louisiana-Pacific, have given our employees economic security by providing pension, life insurance, disability and health plans to all employees regardless of wage and salary levels.

Preferential tax treatment for these plans has enabled Louisiana-Pacific, as well as other employers, to continue these programs. If the tax policy ceases to be favorable, we will undoubtedly have to curtail benefits because of the additional financial liability.

This type of legislation increases the overall cost of providing benefit plans to such an extent that we will no longer be able to afford these programs. Employees may find essential benefits plans are no longer available to them.

We, therefore, urge you to oppose this type of legislation as we feel it would be detrimental to Louisiana-Pacific and our employees. Your support in this matter will be most appreciated.

Sincerely,

Gary R. Maffei
Director Personnel/Employee Benefits

GRM/kw

STATEMENT OF LOYOLA MARYMOUNT UNIVERSITY IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26, 27, and 30, 1984

We at Loyola Marymount University believe that it is our responsibility as an employer to meet the basic needs of our faculty and staff members for financial security. Accordingly, we offer the following benefit package to all of our full time faculty and staff members.

1. Three group health plans from which each employee may choose one.

2. Two group dental plans from which each employee may choose one.

3. Long term disability insurance.

4. Term life insurance plus collective life insurance for each employee.

5. One regular retirement annuity plan and two supplemental retirement annuity plans in which each employee may participate.

Most of our approximately 800 faculty and staff members at both campuses are full time and thus are covered. Over one half of this employee population are women and over one third are minorities. Approximately one half are non-management (non-academic, non-exempt) employees. Our benefit package does not discriminate in favor of highly paid employees.

We have chosen to provide benefits rather than additional cash wages because we consider a sound benefits program to be essential to the economic welfare and security of our faculty and staff members. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly escalating health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. We are currently offering two health maintenance options in an effort to contain costs. We are also planning to employ cost utilization analysis and to adopt the preferred provider organization concept as well as other cost saving measures. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

MAPES

JULY 24, 1984

MR. RODERICK A. DE ARMENT
CHIEF COUNSEL
COMMITTEE ON FINANCE
DIRKSEN SENATE OFFICE BUILDING, ROOM SD-219
WASHINGTON, DC 20510

HEARING DATES: JULY 26, 27 AND 30, 1984

SUBJECT: TAXATION OF EMPLOYEE BENEFITS

A. THAT BENEFITS DO NOT PRINCIPALLY GO TO THE HIGHLY PAID.

B. THAT BENEFITS DO NOT GO ONLY TO MEN.

C. THAT PENSIONS DO NOT ALWAYS FAIL TO ADJUST FOR INFLATION.

D. THAT WORKERS WILL SUFFER IF EMPLOYEE-SPONSORED BENEFITS DO NOT EXIST.

E. THAT EMPLOYEE BENEFITS ARE ESSENTIAL TO THE ECONOMIC SECURITY OF OUR WORKERS, RETIREES, AND THEIR DEPENDENTS.

PRIVATE ENTERPRISE HAS BUILT AN EFFECTIVE AND EFFICIENT ARRANGEMENT COVERING THE NEEDS OF EMPLOYEES THROUGH THE EMPLOYEE BENEFIT SYSTEM. IT IS FAR SUPERIOR TO ANY GOVERNMENT PROGRAM WHICH WOULD REPLACE IT. IT SHOULD NOT BE SYSTEMATICALLY DISMANTLED IN THE NAME OF GREATER TAX REVENUES. THE EMPLOYEE NEEDS ARE THERE AND MUST BE MET. IF PRIVATE ENTERPRISE IS NOT ENCOURAGED TO MEET ITS NEEDS, GOVERNMENT MUST. AND WE BELIEVE THE ULTIMATE PRICE TO OUR NATION WILL BE GREATER.

THE MAPES PIANO STRING CO.

Jane H. Schaff

JANE H. SCHAFF
PRESIDENT

MADISON MEDICAL ASSOCIATES, P.S.C.
JOHN MOSER JOHNSTONE, M.D., F.A.C.P.
DIPLOMATE, AMERICAN BOARD OF INTERNAL MEDICINE
FELLOW, AMERICAN COLLEGE OF PHYSICIANS
INTERNAL MEDICINE

Pattie A. Clay Hospital
Richmond, Kentucky 40475

(606) 623-3837

August 7, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, subcommittee on Taxation and Debt Management.

By John Moser Johnstone

In this time of fiscal irresponsibility and government overspending, with the Social Security system likely not to survive in any sort of viable form, the working public has had to start fending for itself. As there are very few advantages that the ordinary man has in this present day and age, it seems quite reasonable that it is for the good of all that those of us who are able provide for our own retirement, which would take some burden off the Social Security System. Those of us who consider ourselves to be part of the working public find that the pension and profit sharing plans, as presently established, do provide great incentive for saving funds for use at a later date. We all fully expect to pay income tax on that money as it is used after retirement. In fact I find that it is probably one of the strongest employee benefits that can be provided.

We fully recognize that the Federal Government has no faith in the Social Security system as the Federal Government itself does not participate. It is also my impression that the Federal Government employees do not pay tax on that which is donated to the Federal Government Employee Retirement Program. It is also my impression that the Federal Government retired employees receive cost of living raises, etc. on a fairly regular basis. As you and all other members of Congress and your employees would fully understand some drastic changes in your retirement program, I am sure that you can understand my reluctance to idly sit by as the Federal Government tries to remove tax incentives from my employee retirement plan.

I therefore, quite strongly urge you to do all in your power to prevent any substantial changes in the current private employee benefit plan systems as I feel it would be detrimental to a very large portion of the working public and in the long run, place added burden on the Social Security System.

Mark Products U.S., Inc.

August 13, 1984

Roderick A. De Arment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg. SD-219
Washington, D.C. 20510

Dear Mr. De Arment:

I wish to submit my opinion as a representative of Mark Products regarding hearings on taxation of employee benefits. I believe I can express valid concerns from a businessman's viewpoint.

My company is a geophysical manufacturing firm which provides standard company fringe benefits to our employees who currently number approximately 300.

We provide the following benefits to our employees:

1. Group Medical and Dental Insurance Coverage
2. Life Insurance - Basic and Optional
3. Long Term Disability
4. Sick Pay
5. Vacation
6. 90% reimbursement for educational assistance

The company pays a substantial portion of the costs for these group coverages as an incentive for employees to remain with our company and also to assist them with benefits that most could not afford on an individual basis.

Due to the depressed economy, our company was forced to freeze employee's wages from approximately January, 1982 through December, 1983. Employees did receive wage increases in January, 1984 and for most employees it had been two years since their last increase. We cannot begin to equalize the economic damage this wage freeze caused to those employees' financial status with one or even several increases.

Additionally, due to the rising costs in medical care, we were faced with insurance premium increases. In order to limit the amount of premiums paid by employees, we changed insurance carriers effective January 1, 1984. The

company was able to absorb all premium increases. In order to limit the amount of premium cost to the company and to employees for dependent coverage, we chose a cost containment program which increased employee deductibles from $100 to $200 per person. However, the insurance pays at higher percentages dependent upon whether the service provided was supplied on an outpatient or an inpatient basis.

Benefits that private enterprise is able to provide for employees go to not only higher paid individuals, but also to hourly employees and women who historically do not have the earning power that other classifications of employees do.

Industry cannot be expected to continue to increase wages across the board to equalize the lack of earning power of women and lower paid employees, but we must take a stand to protect benefits currently provided to them which they could not afford to pay themselves. Taxation of these benefits will only serve to endanger these individual's financial status even further.

I can cite an example of an employee who recently joined our company as a Machinist at a lower salary than he had earned with his previous company because that company had terminated several fringe benefits including group health insurance. This individual could not afford to purchase an individual policy. Our company's benefits encouraged this man to agree to go to work for us.

I would like to reiterate that all companies, Mark Products included, use wages and fringe benefits as an incentive to obtain new and qualified employees. Our benefits package and the amount of money we are able to absorb as a company for costs of these benefits, also assists us in retaining employees for several years. If these benefits were to be taxed, private enterprise will be forced to offer higher salaries which will have a detrimental effect on financial standings of most companies.

I sincerely hope our senators and representatives will consider the financial stress that taxation of employee benefits would place on the majority of our citizens.

Sincerely,

Cherrell L Vacek

Cherrell L. Vacek
Personnel Manager

CLV/brr

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room 219
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Stephen A. Martin

Submitted as Part of the Record of the

Hearings on Employee Fringe Benefits

Held on July 27, 27 and 30 By the

United States Finance Committee

Subcommittee on Taxation and Debt Management

By

Tax Incentives And The Private Pension System

We hold that the private pension system is an integral and vital part of our society and that it will not long survive without existing tax incentives, such as:

- deductibility of contributions to qualified plans
- tax exclusion of trust earnings until time of distribution

Our position on this subject is not the product of idealistic generalization, but the result of many years of practical experience in helping to create various retirement programs, providing services to them and paying benefits to retirees and their beneficiaries. We know from this experience the following:

- Realistically, few employers could or would provide retirement programs for employees without deductibility of contributions

- Realistically, few employees could or would systematically save enough money to meaningfully supplement social security benefits at retirement age without the benefit of employer-sponsored programs

In addition, the unstable financial condition of the Social Security System provides no assurance of retirement benefits to the younger workforce.

One of the primary goals and aspirations of working people in this nation is to achieve economic security and financial independence at retirement age. The collective efforts of many people striving for this goal have made our economy productive and innovative. The private pension system has been and is a dynamic and effective ingredient in reaching this objective for the great majority of American workers.

We think any efforts to dismantle or significantly alter the private pension system are ill-considered. The system is economically efficient, effective and enjoys the confidence of its users. It eventually pays the Treasury for its tax breaks in the form of taxes on distributions to retirees. Consequently, the system only causes tax collections to be postponed, not forgiven.

In conclusion, we are reminded of an aphorism popular in this region: "If it ain't broke, don't fix it."

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg.
Room SD-219
Washington, DC 20510

Re: Taxation of Employee Benefits
Hearing Dates - July 26, 27, and 30, 1984

Dear Sir:

The purpose of this letter is to address the concerns which I feel are valid and serious as respects the employee benefits available to the employees of our firm. Our company has maintained an excellent employee benefit program for all employees since its founding some 65 years ago. This employee benefit program which includes a Defined Benefit Pension Plan, Profit Sharing Plan, Comprehensive Medical Benefits, Term Life Insurance including AD&D, and Long Term Disability Benefits, is the foundation for the financial security of all of our 61 employees.

Approximately 60 per cent of our employees are female, and many are the sole financial support for their families. One of the strongest ties that our company has with its employees is the excellent benefit program which we sponsor and which is totally paid for by the corporation. You may quickly perceive that proposed legislation to tax employee benefits of this nature would be extremely detrimental to the financial well-being of these employees. Any change in current law which would cause an employee to pay tax as a recipient of these benefits or modify the ability of the employer to deduct the cost of these benefits as a routine business expense will greatly damage all concerned.

I believe, and I think that the information which will be brought to light in Senator Packwood's hearings will overwhelmingly support the essential and necessary economic security that workers, their dependents, and retirees depend on for their economic survival. More than ever, this scenario seems to be increasingly important because of the shrinking dollar and the inability of employees to afford additional coverages as outlined previously on an individual basis.

So far, I have addressed the interest of my company and its employees and tried to express our feelings in that arena. In our company, we have an additional insight in this broad areas inasmuch as we are heavily involved in providing complete employee benefit and security plans to industry. We see, on a daily basis, the importance of medical claims having been paid and the family's financial base protected because insurance programs have responded. Should legislation be brought to bear which would weaken the ability of the employer and employee to maintain adequate coverage, serious financial erosion would take place through rank and file America as well as white collar America. Private enterprise, through its ingenuity and systems of trial and error, has developed an efficient and effective method of covering the needs of employees through the employee benefit system currently available. The talents and expertise of many individuals and companies involved in private enterprise have developed and will continue to develop a system that would be far superior to anything the Government would ever do to replace it. It should never be systematically dismantled in order to "obtain greater tax revenues for our Government."

I believe that the ultimate price and cost of providing benefits will substantially increase and be decidedly less effective should the responsibility be

taken away from private enterprise and placed in the hands of the Government. We all know too well that Government intervention and bureaucratic programs have historically proven to be ineffective, extremely expensive, and provide an ultimate burden to all concerned.

We appreciate the opportunity of having our thoughts recorded in a public record.

Sincerely,

Donald E. Williams,
Chairman

va/

STATEMENT OF MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

BEFORE THE SUBCOMMITTEE ON TAXATION
AND DEBT MANAGEMENT

COMMITTEE ON FINANCE
UNITED STATES SENATE

August 13, 1984

Massachusetts Mutual Life Insurance Company ("Mass Mutual") is a mutual life insurance company operated for the benefit of its more than 1,000,000 individual and group policy holders. Mass Mutual was organized under the laws of Massachusetts in 1851 and, since its founding, has maintained its headquarters in Springfield, Massachusetts. Ranked by assets, Mass Mutual is the 11th largest life insurance company in the United States and among the 100 largest American corporations of all kinds.

Mass Mutual is a provider of life, health, and retirement products to a broad range of employers throughout the United States. In addition, it provides comprehensive employee benefits to its more than 7500 employees, full-time agents, and their families. In light of the critical importance of this coverage to the employees it serves, Mass Mutual believes that current proposals regarding taxation of employee benefits could emasculate the life, health and retirement protection of millions of American workers. In submitting this statement, Mass Mutual joins the overwhelming number of employers and providers whose interest in these hearings is but one indication of the reliance of all workers on a dependable and efficient delivery of statutory fringe benefits today and in the future.

Mass Mutual provides employer-sponsored benefit plans with three major services. It offers investments for retirement plans in individual life insurance, mutual funds and equity products, as well as administrative services to more than 13,000

qualified retirement plans. It offers group annuity contracts to more than 2500 employers maintaining qualified plans, with or without administrative services such as plan design, record-keeping, benefit calculations, and benefit payment. In addition, through Mass Mutual, group life and health insurance is provided to over 5200 employers and administrative services are provided for 150 or more self-funded health programs. In connection with its group health insurance services, Mass Mutual maintains a cost containment service, which in the last two years has served to lower health care costs to employees. These cost containment techniques being put into place show great promise in initially lower health care costs and subsequently curbing increases in costs.

In the last several years, statutory benefits have come under attack, largely for reasons other than the efficiency or fairness of their delivery and scope. Today, the continuation of employee benefits, as we know them, is threatened as never before. The threat results from the current deficit problems facing the nation and from the fact that employee benefits, when viewed as a tax preference, appear to represent a significant number in the tax expenditure budget; therefore they present an almost irresistible source of additional revenues.

The debate thus far has been clouded by a variety of misconceptions about the breadth, fairness, and effectiveness of employer-sponsored benefit plans. These misconceptions are that much more difficult to dislodge in light of the urgency

with which revenue raising has been approached in the past few years. There is the myth that pension coverage, and ultimate benefit receipt, is limited to the highly compensated, and that the tax incentives in the Internal Revenue Code have not served to assure wide coverage and vesting to a broad cross-section of employees. There is the myth that revenues to the income tax base and social security base are lost forever, despite the tax-deferred, rather than tax-exempt, nature of the bulk of employee benefits. There is the myth that rising health care costs are due to the exclusion of group health benefits from taxation, and the even more dangerous misconception that health care costs will be drastically reduced, with no concomitant reduction in the quality of American workers' health care, if employees are forced to pay for health care with after-tax dollars. There is the myth that even without tax incentives, employers will continue to provide the same level of employee benefits, rather than reexamining their use of capital. Finally, a dangerous assumption is being made by those who argue for taxation of employee benefits. They assume that without employer-sponsored benefit arrangements, employees at the lowest and neediest income levels will forego current consumption in order to save for health care, disability, or premature death. Implicit in this dubious assumption is that the government will be prepared, and able, to provide benefits equivalent to those being provided today, without a long-term effect on the deficit far more troublesome than that preoccupying Congress now.

We are pleased that the Subcommittee has held hearings to analyze the tax treatment of employee benefits, and we hope that the Subcommittee, based on the hearings, will be able to correct the widely-held misconceptions concerning the delivery of employee benefits. Such an analysis, however, can only occur in the context of a rational and systematic national employee benefit policy, comprehensively conducted rather than approached piecemeal, as has characterized the last ten years of Congressional activity in this area. In view of the serious issues involved, we believe it is desirable for Congress to postpone further changes in the taxation of employee benefits pending further study of these issues. More specifically, we recommend that the Committee consider the overall problem of a national employee benefit policy at the earliest opportunity possible, in connection with future tax reform or social security legislation.

EMPLOYEE BENEFITS AND THE DEFICIT

Much of the current discussion of employee benefits is devoid of any significant recognition of the enormous value of these benefits to all workers. As of 1983, about 50 million workers were covered by private pension plans. Thus, some 60% of covered nonagricultural workers, more than half of whom earn less than $15,000 annually, could expect to receive retirement benefits in addition to Social Security. Especially at the lower paid levels, the replacement incomes of those combined

retirement sources nearly equalled pre-retirement earnings. Health coverage is even more broadly based: over 90% of the nonagricultural full-time workforce was covered by group health insurance. Life insurance coverage for American workers is similarly impressive: 96% of all employees of medium and large employers are covered by group life insurance and 80% of small employers provide life insurance coverage to their employees.

As important as the breadth of coverage is the significance of that coverage. For the individuals protected, their fears of premature death, or crippling disease, or financial security, are substantially muted by the recognition that arrangements are already in place and reliably maintained to deal with these uncertainties for themselves and their families. Especially at low income levels, employees are not faced with the choice whether to save for retirement or to adequately clothe and feed their children. Nor need they fear that a single catastrophic illness could wipe out their savings, regardless of how diligently they put money away for the future.

Lately, however, Treasury and Congressional attention has focused on the revenue drain associated with employee benefits, rather than the positive effect these arrangements have on employee well-being, productivity and morale. Indeed, the focus is even more limited than it might seem -- the debate centers on the short-term revenue drain from tax-preferred employee benefits, without apparent recognition of the share of fringe benefits that are currently taxed or those which will be

taxed later, when benefits are paid. Nor has the effect on the deficit been considered if, in lieu of employer-sponsored arrangements, the government were to become the provider of last resort for a host of benefits now wholly sponsored by the private sector.

As many have pointed out at these hearings, only a small percentage of employee benefits is entirely tax exempt -- chiefly health and certain disability benefits. Most benefits are tax deferred, and the Treasury will receive, in the future, revenue based not only on the contributions made but also on the interest that has accumulated on those funds. As the level of retirement earnings increases, nearing that of pre-retirement levels, there will not be a significant shortfall in revenue based on tax rate differentials.

There are some in Congress who contend that there is a fundamental unfairness in some employees enjoying certain benefit arrangements on a tax-preferred basis, while others are not similarly covered. The alternative, a mandatory minimum program, like social security, has in practice already proved expensive and often unworkable. Who would enforce such a program for life, health, disability and retirement benefits and how much would it cost? We suggest that the government would end up spending more, to provide less, while private employers, aided by knowledgeable and competitive service providers and financial intermediaries, would relinquish their roles in establishing and maintaining creative employee benefit arrangements on a cost-effective basis. The result: employee

benefits, expensively provided but inadequate in level, inflexible in delivery and burdened by the administrative difficulties historically associated with government mandated programs.

The same critics argue that private employers would still sponsor comprehensive employee benefit programs without the benefit of tax incentives. Employers are, in the last analysis, profit motivated; a successful businessman analyzes the effectiveness of capital outlays, at the same time as he attempts to provide for the current and future well-being of his employees. Employers are unquestionably aware that the scope and level of employee benefits are influential in hiring and keeping good employees, as well as in maintaining a healthy and productive workforce. To the extent, however, that maintenance of these benefit programs becomes too administratively costly and burdensome, and the taxation of these benefits begins to reduce the amount of benefits that each dollar of contributions will buy, employers will feel free to increase taxable compensation and eliminate employee benefits, taking the risk that employees will save on their own for the exigencies of sickness, death and aging, and that the government will step in if these individual arrangements fail.

Currently, the government's primary benefit program is Social Security, a system which operates on a pay-as-you-go basis and is dependent on the contributions of current workers to cover the presently payable benefits of retirees. Although contributions to Social Security represent "savings" to individuals, this transfer payment system adds nothing to capital

formation in our economy. While the efficacy of expanding a pay-as-you-go funding approach is questionable at best, it becomes especially dangerous to rely on this mechanism when one considers the demographic changes expected over the next forty years. As the baby boom ages, the number of workers paying into the system to support payments to retirees will decline substantially. Today, for every 100 workers paying into the system, there are 31 retirees or beneficiaries receiving payments. In 50 years, for every 100 workers paying in, there will be 52 people collecting benefits. If economic conditions decline, and as people live longer and retire earlier, the cost of supporting the system will increase to an even greater degree.

We are constantly being cautioned that it would be a mistake to rely on Social Security to protect the post-retirement security of all workers; indeed, in 30 or 40 years, individuals whose income exceeds a minimum level may not be entitled to Social Security payments at all. Thus, in the absence of employer-sponsored arrangements, reliance on Social Security for most workers would be misplaced. Left then, in the absence of employer-sponsored retirement programs, are private savings. It is well known that the United States economy has the lowest rate of savings of any developed nation except Canada. One indication of the low incidence of private savings is the comparison between private pension coverage and maintenance of Individual Retirement Accounts ("IRA's"). About 75% of pension coverage benefits employees earning under

$20,000 annually. In contrast, 18% of all IRA's are maintained by households with adjusted gross incomes of less than $20,000. While it is difficult to predict whether employees would save significant -- and sufficient -- amounts to support themselves in retirement, the likelihood is that employees at low income levels would not be able to put away adequate funds, especially if their contribution to individual arrangements were made with after-tax dollars, and a significant portion of the income from these savings were not exempt from tax. Thus, the long-term effect may be a greater proportion of aging poor in this country, and a commitment forced in the future which will require more in outlays than the revenue currently lost or deferred because of the tax incentives now associated with employee benefits.

This scenario has inherent problems for the economy in general as well. The assets accumulated by plans -- now nearly 400 billion dollars -- provide efficient and creative investment potential in the American economy. This accumulation of capital, through large and responsible financial intermediaries, managing the funds in a fiduciary capacity, has an enormously favorable effect on the capital markets. The tax base is otherwise broadened through these investments, and industry flourishes, due solely to the influx of private investment, rather than government subsidy or support. To the extent that these funds are fragmented, or individually managed by unsophisticated investors, the effect on entrepreneurial investment will be disastrous. New emerging industries will

heavily depend on pension plan investment in venture capitalists who are prepared to take entrepreneurial risks; the health of our economy is dependent on those companies.

A nearsighted approach to the tax treatment of employee benefits overlooks these long-term factors and their effect on the economy and the deficit over the next 40 or 50 years. While we strongly believe that the debate on fringe benefits should not be straitjacketed by revenue concerns, even when revenue issues are considered, their full examination leads to a result diametrically opposed to reduction of tax incentives for these benefits.

GROUP HEALTH INSURANCE AS A SOLUTION TO RISING HEALTH CARE COSTS

As health care costs have escalated, there has been an increasing tendency in Congress to blame the tax incentives associated with employer-provided health benefits for the perceived abandon with which health care costs are incurred. We submit that a benefit tax cap on health insurance would be totally ineffective in addressing what we in the industry agree is a fundamental concern.

We noted earlier the broad coverage of employer-provided health insurance, which as a matter of social policy, has been extraordinarily effective in encouraging a healthy workforce, as well as a workforce which can financially cope with the costs of catastrophic illness. Fifty years ago, the

health care climate we enjoy today was only to be wished for, i.e., a system under which medical care could be afforded even at low income levels, and the costs of such care were neither shifted to employees least able to pay for them nor directly shifted to the public sector.

Granted, health care costs have skyrocketed in the last several years, and while some of the increase may be traceable to irresponsible payment systems, by far the greatest share of the increase is due to factors totally unrelated to whether an employee is provided a tax benefit for medical costs. In this country, we now have an oversupply of doctors and hospital beds, and an undersupply of patients. This anomaly has led to "over-doctoring" in some cases, which can be roughly defined as too many unnecessary tests, too much unnecessary surgery, too lengthy hospital stays and too high a cost for these services. Employees are in the worst position to monitor these costs; whether surgery is required, or whether it must be done on an in-patient basis in the hospital, or whether particular generic drugs could be substituted for more expensive "brand name" drugs is simply outside the knowledge or confidence of the average patient. Capping the amount of benefits that can be received tax free will not make for more sophisticated consumers; the rich will buy additional care and the poor will suffer inadequate care, or be reluctant to have serious medical problems addressed at all.

We submit that the appropriate method of reducing health care costs should reflect the experience and initiatives

of the health insurance community in recent years. Mass Mutual, for example, has made a significant capital investment in the last two years to strike at the underlying problems of health care costs, rather than taking only the penalty approach (i.e., higher deductibles and co-insurance amounts) to employee use of health care. We have set up a separate cost containment division staffed by health care specialists and medical economists whose goal it is to fashion plan design in such a way that the transfer of costs to employees is minimized and employees' access to high quality care is uncompromised. From a reimbursement standpoint, our efforts are directed at changing employee, employer and medical provider practices in ways that will restrain inappropriate utilization of health care.

Thus, in the area of plan design, we have initiated second opinion programs for elective surgery, under which the full cost of the second opinion is a covered benefit under the plan, and the failure to obtain a second opinion is penalized in terms of benefit coverage. We are addressing the problems of hospital short-stay diagnostic admissions and short stay surgery by excluding coverage of first-day room and board, but at the same time fully covering the costs of the care if done on a same-day or ambulatory basis. We have been fully supportive of all payer systems, similar to the prospective payment system employed in Medicare, so that insurers set, in advance, the charges that will be paid based on diagnosis-related groups of health care types, classified for patients with similar medical characteristics. Phase-in of this program for Medicare

will be fully completed by 1987; however, without a similar program implemented for the non-public insurers, it may only serve to shift costs from the public sector system to the private sector, without fundamentally changing the system. Mass Mutual fully supports the bills introduced to encourage these programs by Senator Kennedy and Congressman Gephardt.

In addition, Mass Mutual has designed cost containment benefit options through preferred provider organizations which increase competition among doctors, nurses, pharmacies and hospitals, who agree to provide services at a discount rate, and submit to pre-hospital review programs to determine if the care suggested is really necessary and appropriate. The service providers benefit because they increase their market share of patients; the patients benefit because use of these preferred provider organizations results in the waiver of coinsurance and deductibles; and the insurers and employers benefit through lower costs. Thus, although a direction away from first dollar coverage may in some instances lower health care costs, it is essentially a penalty on employees, not offset by changes in the obligations of health care providers to manage care efficiently. We believe that the variety of approaches used by Mass Mutual and other insurers will succeed in changing patterns of care in a way that benefits all parties to the system.

Mass Mutual is also using other cost containment options which we believe will lower future health care costs. These include pre-admission review programs; educational

programs for employees designed to promote understanding of the benefits of out-patient care; home health care and extended convalescent care; and wellness, fitness and back injury programs. All of these lower cost resources help to reduce the incidence of disease, as well as the inefficient use of health care. As all of these programs become more prevalent, we will have gone a long way in making significant changes in the system through employer and employee awareness. All employees will become more sophisticated consumers, which can only lower the rate at which health care costs have increased over the past several years.

We cannot state in strong enough terms how mistaken it would be, in light of the progress being made by the private sector today, to use the bludgeon approach of a tax cap on health care benefits. The cost containment efforts which are relatively new in the industry, should be given a chance to work and then be reassessed in several years. If a short-term solution cannot be avoided, it should be constructed in the context of the fundamental systemic changes now underway, and should exempt from its reach employer-provided benefits which already are designed to significantly contain costs.

THE DIRECTION OF FRINGE BENEFITS IN THE FUTURE

This Subcommittee has asked serious questions about the future of fringe benefits. In our view, Congress has inadvertently created a disincentive to maintenance of these

programs which can only worsen if the scattershot approach to statutory benefits continues to be employed in the years to come. In the last ten years, we have seen 7 major bills dealing in one way or another with employee benefits; the rules governing benefit structure have changed dramatically. With each piece of legislation, employers are that much more reluctant to initiate benefit plans, that much more burdened with new and confusing rules, and that much more reliant on the cadre of trained lawyers, accountants and actuaries who work full time simply to keep up with an ever out-of-date copy of the relevant requirements.

Our experience has taught us that especially for small employers, these legislative changes, and the administrative agency rule changes as well, are confusing, expensive and disruptive. They require plan, and plan description changes yearly, with all the costs attendant to those activities. The small plan market is particularly inelastic; as the number and complexity of the requirements increases, the incentive to have a plan at all is severely diminished. While no one could argue that plans have historically been abuse-free, the vesting, funding, participation and discrimination rules have ensured a fair and equitable delivery of employee benefits for the overwhelming majority of employees.

There has been too little public discussion and review prior to these legislative changes, and too little consideration of the negative effects of the changes in advance of enactment. For example, while the top-heavy rules serve an

inarguably useful function in assuring that plans will not be used as a vehicle to deliver benefits only to the substantial owner of a business, they are not tailored at all to small plans which, simply because of smaller numbers of participants, cannot keep from being top-heavy, even where benefits are tied strictly to a percentage of compensation. Congress could accomplish its goals far more effectively if the limits were coupled with other changes to plans designed to benefit the lower-paid, such as higher Code section 415 limits for nonintegrated plans. Thus, small employers would have an incentive to establish plans, and the plans themselves would ultimately provide greater benefits to the lower paid.

While in many instances, Congress has taken positive steps to insure delivery of certain types of socially desirable benefits, these steps are often not the most creative or cost efficient methods of reaching the desired result. For example, while the Retirement Equity Act will require survivor annuities to be routinely provided, it might well be even more beneficial to encourage, through the tax code, more substantial death benefit protection. Especially for small employers, life insurance contracts more economically protect survivors than the often unsubsidized survivor benefit found in many pension plans. In this connection, there is no dispute that the $50,000 cap on group term life insurance costs is entirely antiquated and out of step with the purchasing power that the dollar limit represents. Maintaining the limit at this level provides a disincentive to protect beneficiaries through life

insurance, a result which is totally inconsistent with the needs of the lower-paid employee.

Equally important to all plan sponsors is to create rationality in the enforcement of the complex rules now governing pension plans. Three federal agencies share overlapping jurisdiction, often promoting wholly different goals and signalling different policy directions. The recent Administration approach to excess assets in defined benefit plans is but one example of the delays and confusions inherent in this area. Guidance from these agencies is often too slow in coming to be useful when finally received; the time lags in prohibited transaction exemptions, plan terminations, and IRS letter rulings create an atmosphere of frustration and confusion among plan sponsors.

While there may be real need to focus on employee benefit issues, the effort will be misdirected if it concentrates solely on revenue raising, without giving deference (and increasing incentives) for legitimate policy objectives. So too, efforts to "reform" the private sector, when employers and insurers are fully prepared and proceeding to "reform" themselves, will almost certainly backfire to the detriment of employees. The question is not whether we can afford to have tax-preferred employer-sponsored fringe benefits but whether we can afford not to. Without consideration of long-term goals for employee benefits, short-term solutions will surely fail.

EUGENE C. WASSON III, M.D., INC.
JAMES A. BENDON, M.D., INC.
THOMAS R. ABRAM, M.D.

221 MAHALANI STREET
WAILUKU, HAWAII 96793
(808) 242-9537

MAUI RADIOLOGY CONSULTANTS

DIAGNOSTIC RADIOLOGY
NUCLEAR MEDICINE
ULTRASOUND
COMPUTED TOMOGRAPHY

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance, Room 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with you requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing On Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Eugene C. Wasson III, M.D.

ECW:jq

Attach.

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management by Eugene C. Wasson III, M.D. for Maui Radiology Consultants

This report is being submitted on behalf of our employees because of our concerns with the need to continue a strong private pension system in this country to supplement Social Security retirement. It is the strong feeling of our employees that necessary steps should be taken to preserve and strengthen the private sector retirement plan system rather than imposing more restrictions and penalties. We all continue to hear about the growing difficulties with Social Security and certainly in the face of continued inflation and the growing size of the retired population, some form of supplemental retirement income will be necessary even to subsist at a modest standard after retirement.

Capital generated by the private retirement system is considerable and has a beneficial effect on American business and our economy. It would be imprudent to withdraw this source of capital and withdrawal of this would undoubtedly have a negative effect on our economy.

It is my impression that our current statutes do protect from abuse of this system. Benefeits go to all employees and not inappropriately to the more highly paid. Benefits go to employees regardless of their age, sex, race or religion. Pensions indirectly adjust for inflation as they are tied to the salary levels which do change with continued increases in our cost of living. It is my strong feeling that all workers will suffer if employer-sponsored benefits do not exist. We provide workmen's compensation, temporary disability insurance, unemployment insurance, health insurance, group term life insurance, standard benefits as well as a retirement pension plan. These employee benefits are essential to the economic security of our workers and their dependents.

I would again stress that I am much more comfortable with the current status for employee benefits and private retirement planning and feel quite certain that it is far superior to any government program which would replace it. After watching the progress of various government systems such as Social Security and Medicare, I find it abhorrent to hear suggestions that the private retirement plans and employer-funded employee benefits would ever be considered for replacement by any Federal system. Please don't diminish our private retirement system.

STATEMENT

of

IRA L. SHARENOW

Vice President and General Manager

Pharmaceutical Card System

Scottsdale, Arisona

a subsidiary of

THE MCKESSON CORPORATION

San Francisco, California

before the

United States Senate

Subcommittee on Taxation and Debt

Management of the Finance Committee

Chairman, Bob Packwood (R-Oregon)

This statement submitted August 13, 1984, to be part of the written record for hearing held by the Subcommittee on the topic of Fringe Benefits on July 26, 27, and 30, 1984.

STATEMENT IN SUPPORT OF PASSAGE OF S.2080

My name is Ira L. Sharenow. I am the Vice President and General Manager of PCS (Pharmaceutical Card System), a wholly-owned subsidiary of McKesson Corporation. PCS is the largest processor of private prescription prepayment programs in the nation. For the past year, PCS has been developing a group legal services program for the PCS Product Line, a program designed to bring basic legal services to the employed population at affordable prices.

This statement is being submitted in support of S. 2080 to make permanent tax-free status of qualified group legal service plans. Passage of the bill will add much needed encouragement to the employee benefit industry through continued development and marketing of this program. However, of even greater importance is the value of such programs to workers, their employers and society as a whole.

I must state here that I am referring to plans which provide benefits for personal legal services. By personal legal services, I mean services involving such matters as adoptions, residential real estate transactions, child support and probate problems as well as consumer protection matters such as enforcement of simple warranties. Experience over the years has shown that these plans, to a substantial degree, meet the legal needs of the middle class wage earners of this country. It is interesting to note that American Bar Association statistics clearly show that over 70% of our population goes unserved due to the high costs of legal services presently being provided under the curative approach to solving legal problems. There is no question that the wealthy of our society have access to and can afford legal services along with an evergrowing part of the poor and elderly population having more needs met through grants from the Legal Services Corporation.

It is sad to note that without the access through such programs that the middle class can easily be characterized as indigent with regard to legal care.

It must be noted here that prepaid legal service plans as an employee benefit is still a relatively new concept. However, their acceptance into the marketplace has been steadily growing as evidenced by such plans as the ones recently installed by General Motors and Chrysler. It is also interesting to note that both Ford and American Motors have plans which will become effective based upon certain performance levels of their sales.

Prepaid legal programs have experienced a number of difficulties over the years in becoming an accepted employee fringe benefit. A number of these barriers have been of great concern to such organizations as the American Bar Association. Fortunately, direct action and support from the ABA has caused most of these problems to be solved either through changing of attitudes and rules of conduct as they control lawyers' participation in such programs as well as a number of Supreme Court decisions entered in favor of the development of such programs. Also, the amendment to the Taft-Hartley Act in 1973 and the favorable tax treatment originally provided by the Tax Reform Act of 1976, renewed in 1981, made the development and growth a reality. Today, it is estimated that over 7 million people are presently covered under some form of group or prepaid legal service system.

Most of these people are covered under plans established in connection with collective bargaining agreements. Unions have negotiated legal services as an employee benefit just as they have bargained for medical. In fact, many insurance companies such as Prudential and Metropolitan have seen great similarities between medical and legal care

as a combined benefit. It is with this nexus in mind they have made their entries into the marketplace. A few of the key similarities are:

1. Employer-sponsored legal services plans allow the spreading of the risk of incurring legal expenses over the entire group, thus reducing the potential risk of catastrophic loss.

2. The use of group delivery system produces economies of scale that result in real dollar savings for members of the group.

3. The bargaining power of group legal service programs, similar to the bargaining power created by health programs, has shown a marked improvement in the access to our justice system.

There is no question in the minds of all involved that changes in the way legal services are delivered is an absolute must in order to contain ultimate costs for such programs. The key is the need for the development of low cost prevention programs thereby allaying the need for high cost curative responses to the simple day-to-day needs of the middle class wage earner.

The face that legal services plans are just now coming into their own on both a group and on an individual basis will be greatly encouraged by the passage of this bill. Indeed, group and prepaid plans may represent the only opportunity for the majority of the people in this country to budget for legal services heretofore never considered and thus obtain high quality access to legal services help for problems heretofore unresolved. It is our impression from discussions with numerous people around the country that billions of

dollars are lost annually due to the lack of reasonably priced legal services being available to the consuming public.

BENEFIT TO THE EMPLOYEES

As noted, union interest has spurred the growth of such plans. The course follows the classical approach seen over the years in the development of any type of new employees benefit programs. Unions have always recognized the need for the development of more sophisticated delivery systems in the benefits area and have actively bargained and won such programs at the tables. It has been our experience, however, that the uncertainty of the tax status of this benefit has impeded many employers as well as insurance companies from extending this coverage to bargaining employees who make up the majority of the employed people in this country.

We feel that this is terribly unfortunate for all employees since coverage under a legal services plan reduces the barriers that exist between attorneys and the public. Through prepaid programs, instead of waiting for a legal problem to develop into an expensive, unbudgeted legal problem, competent professional advice and consultation can be had at the earliest stages of the problem or even better, before the problem even exists. Experience for the many insurance companies and self-funded programs around the country shows that over 85% of legal problems or concerns of employees can be resolved with one single simple conversation with an attorney. This is due to the ease within which people can reach attorneys based upon the availability through prepaid programs.

It is obvious to all of us that our society is becoming more complex every day. More laws and local rules are being put into place to protect the public on all sorts of matters.

These include such specific problems as landlord-tenant disputes, warranties on new products, consumer credit, as well as the day-to-day problems noted above such as divorce and probate. In too many cases, those people for whom the legislation was intended are totally unaware of their rights. It has been in this area that prepaid plans have met a very important need by providing cost effective availability to the legal system thereby enhancing their ability to deal with the problems in a preventive rather than curative manner.

By encouraging the development of group and prepaid legal plans, this valuable coverage will become available to many, many more employees. More importantly, however, employees of much smaller employers who would otherwise not have the expertise or the resources of such delivery mechanisms are now eligible for such services.

BENEFIT TO THE EMPLOYER

Prepaid legal plans also provide real savings to the employer. There is no question that an unresolved problem creates incredible stress for employees. The stress of such problems leads to absenteeism and accidents due to inattention which greatly reduces productivity. Employees not only lose time from work in having to resolve the problems but also affect the time of their fellow workers by seeking advice from other departments within the company not really trained to provide such service. In a recent study, a company of 20,000 employees calculated that it would save in excess of $20,000,000 per year from the inclusion of a prepaid legal program simply by saving one hour per week per employee of personal time lost due to outside legal problems.

There has also been shown a direct correlation between stress and health care expenses.

Another recent study showed that over two-thirds of office vistis to family doctors are prompted by stress-related symptoms. As noted above, the impact of a legal program can have a significant impact upon these expenses by easing the stress of the employees through quick resolution of their legal problems. Savings to industry and thus to the government in the form of expanded productivity and tax dollars will be significant.

BENEFITS TO SOCIETY

We truly believe the presence of group legal plans greatly serves the general public interest. Programs to encourage and assist employees in the day-to-day areas such as adoptions, residential real estate purchases, family law, etc. providing an the emphasis upon preventive rather than curative law will have tremendous impact on the consuming public. The real significance is the cost of these programs which is minor in relationship to the services being provided. Typical programs presently run anywhere from $50 to $150 per year for a comprehensive plan as shown against the thousands of dollars presently being charged for medical programs.

PCS' INTEREST

The role of third party administrative companies to this point has been somewhat limited. However, we believe that the permanence of the tax-free status of group legal plans will encourage the growth of the availability of such servics and thereby increase the need for cost effective administrative organizations. Competition and emphasis into the marketplace will only enhance the quality of the services being provided to people

but will also keep down the costs being charged. We believe it is the firm intent of all parties interested in this area to keep costs at a minimum and not allow the escalations seen in the medical profession.

CONCLUSION

We believe that such plans provide valuable protection for everyone at a relatively low cost, and that the benefits of such a program far outweigh any marginal revenue losses that would be generated if such plans were not taxed. It is also interesting to note that most employers will not even offer such programs if the tax exempt status is not continued thereby eliminating any potential gain through the code. As such, the expiration of I.R.C. §120 would greatly dampen the enthusiasm presently being generated for such programs and their ability to provide quality legal care at reasonable costs to the majority of the middle class working population. Therefore, we strongly urge that I.R.C. §120 be extended and renewed as provided for in S. 2080.

1984 AUG -3 AM 11:11

MCKINLEY PROPERTIES
320 North Main Street
Ann Arbor Michigan 48104

Senator Robert Packwood
Subcommittee on Taxation and Debt Management
United States Senate
Washington, D.C.

Dear Senator Packwood:

I am writing to present the views of McKinley Properties, a growing national property management company with 450 employees in three states, on the subject of tax-free employee benefits.

Mckinley, like many smaller service organizations, must be economical in assuming any kinds of costs, including salaries and benefits for employees, in order to offer our services to customers at a price they can afford to pay. The present tax laws which exempt employee benefits from taxation enable us to do two things that we could not do if the laws were changed: 1) provide important and expensive insurance coverage for our employees and 2) offer this benefit to everyone regardless of individual circumstances.

Requiring that employees pay taxes on the health and life insurance benefits which we offer to them would reduce the value of the insurance to them and have several bad consequences: (1) some healthy employees would leave the plan rather than pay taxes on a benefit they do not need; (2) claims per person would rise, and employees remaining on the plan (or the company for those who receive free insurance) would pay higher premiums; and (3) our company, in order to cope with additional increases in health care costs, might have to reduce the benefits of the plans, delay eligibility, or raise the price to our employees. Some healthy employees would have no insurance in a sudden emergency, and those who need health insurance would find it considerably more expensive.

Providing tax exemption for employee benefit plans encouraged employers to offer health insurance to all of their employees regardless of seniority, position, or state of health, at a cost considerably lower than any of them could have obtained for themselves. At a time when national health insurance is less desirable than usual because of the federal deficit, Congress should not attempt to reduce the availability of private insurance offered at low cost through employers.

We believe the government should encourage private employers and other private organizations to seek the best deal for their members by providing incentives in the form of tax exemptions or

tax reductions for those kinds of benefit plans which most people cannot afford to purchase for themselves, like health, life, dental, and pension plans. National plans of this kind would be unwieldy, poorly adapted to individual circumstances, and extremely costly, because it would be politically very difficult to control costs or benefits (as we have seen with Medicare and Social Security).

We believe that the current rules on coverage requirements are sufficient to insure that all employees benefit from the availability of tax-exempt benefit plans.

Mckinley, and many other employers like us, encourage the committee to preserve the current tax status of employee benefit plans, as the least expensive and most effective way of providing for the insurance needs of our citizens.

Sincerely,

Joan Schneider

MCKINLEY PROPERTIES

Joan W. Schneider
Personnel Director

McLean Trucking Company

EXECUTIVE OFFICE, 1920 WEST FIRST STREET

WINSTON-SALEM, NORTH CAROLINA
27104

DAVID B. WHELPLEY
EXECUTIVE VICE PRESIDENT
FINANCE AND TREASURER

919/721-2000

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

I understand that Senator Packwood held hearings on Fringe Benefits on July 26, 27 and 30, and that he has asked for written statements from plan sponsors of as many companies as possible who are concerned about the future of employee benefits.

I believe strongly that private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. I believe the ultimate price to our nation would be greater if assumed by the government.

A common mistaken impression concerning employee benefits is that these benefits are paid principally to highly paid employees. Actually, only a small percentage of the benefits under our employee benefit plans are for highly paid employees.

In summary, I believe that employee benefits are essential to the economic security of our workers, retirees and their dependents. Our workers would suffer if employer sponsored benefits no longer existed.

Sincerely yours,

David B. Whelpley

DBW:lh

cc: The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, DC 20510

MECHANICAL REPS, INC.
HVAC EQUIPMENT & SYSTEMS SALES
3901 WOODBURY DRIVE • P.O. BOX 3379 • AUSTIN, TEXAS 78764 • (512) 444-1835

July 23, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Subject: Public Hearing on July 26, 27, and 30, 1984
Concerning the Issue of Employee Fringe Benefits

Dear Mr. DeArment:

On behalf of our company, I would like to state a few things concerning our feeling for fringe benefit programs for our employees. We have a variety of programs which include a major medical health program, which includes life insurance and a dental program. We also have a company pension sharing plan and a profit sharing plan. Our plans are to the benefit of all employees over the age of 22 years old. I am in favor of these benefits to the employees, and I'm sure that they feel these benefits are essential to their economic security.

We feel that private enterprise should be the one to have long lasting benefits for their employees, and we feel they are obligated to provide them. We would much rather see private enterprise have employees' benefit programs, as opposed to any government program which might be considered to replace this. I would be glad to provide any specific information that you might request.

Sincerely,

MECHANICAL REPS, INC.
Executive Vice President

Joe D. Lowke

JDL/kg

MCA Medical Center Anesthesiologists, P.S.C.

ARMEN H. ASH M.D.
HERBERT P. BERGNER M.D.
CHARLES M. BICHEL M.D.
W. STERRETT FOSTER M.D.
DAVID M. HUMPHREY M.D.
RICHARD B. SALSITZ M.D.
PATRICK T. SHANAHAN M.D.
JACK C. WILHOIT M.D.
SIDNEY W. WINCHELL M.D.
YACOUBE YACOUBA M.D.
(Retired)

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

LaVerne Nickbarner

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: LaVonne Mehlbauer

The private employee benefit plan system serves a very useful purpose. The following are my reasons for stating so:

(1) Serves a definite social and economic purpose, i.e., funds my retirement, funds my medical and dental insurance, disability and life insurance. I have worked for many years and consider myself a permanent part of the work force, and the employee benefit plan system has produced an increase in my standard of living. To take this benefit system away would have to decrease my standard of living.

Only an idiot would believe this system would survive "absent the tax incentives".

I consider this benefit to be part of my salary, and salary is and has been in the past held at a certain level because of this benefit. Removal of this benefit would be a reduction in my salary. Keep in mind, I am an office worker--not a physician, attorney, etc.

(2) Our retirement plan is even-handed--all employees get a 25% employer contribution. This is 15% Profit Sharing and 10% Retirement. Vesting is 100% after the 1st year and working 1000 hours. Our corporation employs approximately 25 nurses and 12 office people, and we all benefit equally. I can borrow for housing, beating today's interest rates! Several of us have borrowed for housing downpayments. I also understand I could borrow if I had a severe economic hardship occur.

(3) It would have an adverse impact on my well being and security at retirement age if this benefit were not available. Everyone knows you can't live off "social security", which may not even be there.

In our business 22-25% of our patients are Medicare age. Some of these patients live on such a meager income (Social Security) that we won't even take their $5 or $10 they try to pay on our bills because their financial means are so pitiful. Senator Packwood obviously lives in a different world than I do.

The Merchants National Bank of Mobile

CAPITAL & SURPLUS $20,000,000.00

STEWART THAMES JR
VICE PRESIDENT
AND TRUST OFFICER

Mobile, Alabama

TRUST DEPARTMENT

P. O. DRAWER 2527
MOBILE, ALABAMA 36622

August 2, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely yours,

Stewart Thames Jr

Stewart Thames, Jr.
Vice President and
Trust Officer

STjr/br
encl.

"Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management."

"By" Stewart Thames, Jr.
Vice-President and Trust Officer
Merchants National Bank of Mobile
P.O. Drawer 2527
Mobile, Alabama 36622

The Private Employee Benefit Plan System (Private Benefit System) plays an extremely important role in our free enterprise system. If it was not for Qualified Retirement Plans, many employees would reach retirement age and have to depend solely on Social Security as a source of retirement funds. If a survey was taken throughout the country, I would estimate approximately 70% of the people polled would have grave doubts the Social Security System would be in existence 20 years from now.

As Trustee of one of our profit sharing plans with a year end June 30, we are paying out this week retirement checks in the amount of $52,595.33, $61,981.45, $62,690.20, $66,679.38, $80,015.88, $100,743.55 and $150,873.96 to employees who have been middle managers and not highly paid employees. Without the Company's profit sharing plan, their retirement would certainly not mean as much to them. In fact, without the Company's retirement benefits, these employees might become dependent upon their children and other agencies for financial support.

One of the largest expenses incurred to the Private Benefit System is the new legislation passed each year by Congress. Millions of dollars are paid by employers to attorneys and consultants just to bring qualified retirement plans into compliance each year with the new regulations. There is nothing wrong with new regulations to improve the Private Benefit System, but have Congress consolidate the changes and amend Retirement Plans every five years instead of every year. For example, the Tax Equity AND FISCAL Responsibility Act of 1982 was signed by the President on September 3, 1982, and the majority of qualified retirement plans will require amending for plan years beginning after December 31, 1983. However, the Internal Revenue Service did not begin accepting Master Plans for qualification until June 18, 1984. It is doubtful Determination Letters will be issued on these Master Plans before December 31, 1984. Comprehensive changes were again passed by Congress in the Tax Reform Act of 1984 on June 27, and signed by the President on July 18. At the present time, the Internal Revenue Service can hardly interpret TEFRA, much less the Tax Reform Act of 1984.

If tax incentives in the Private Benefit System are reduced, the system will provide less retirement benefits and the need for government support to retired employees will only increase.

This is not the time to reduce tax incentives or benefits in the Private Benefit System, but a time for encouragement and support for this System to enable retired employees to stand on their own two feet and not in a government handout line.

MERLINE, THOMAS & STUART
PROFESSIONAL ASSOCIATION
ATTORNEYS AT LAW
GREENVILLE, SOUTH CAROLINA 29603

DAVID A. MERLINE
JOHN R. THOMAS
CHARLES M. STUART, JR.

POST OFFICE BOX 10796
685 NORTH ACADEMY STREET
TELEPHONE 803-242-4060

July 24, 1984

Mr. Roderick A. DeArment
Chief Council
Committee on Finance
Room 219
Dirksen Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits to be held on July 26, July 27 and July 30 by the United States Senate Finance Committee, sub committee on taxation and debt management. Thank you for your assistance.

Sincerely yours,

MERLINE, THOMAS & STUART, P. A.

John R. Thomas

JRT/mar
Attachment

Submitted as Part of the Record on the Hearing
on Employee Fringe Benefits held on July 26, 27
and 30 by the United States Finance Committee,
Sub-Committee on Taxation and Debt Management

By: John R. Thomas
Merline, Thomas & Stuart, P. A.

We support the continued tax incentives for the private employee benefit plan system. Without such a system, many employees would not have enough retirement income to be financially secure in their retirement years. It is not advisable that individuals rely upon IRAs since it becomes extremely difficult for many individuals to deposit funds each year into an IRA out of their earnings. Retirement plans do not benefit only highly paid employees. It is quite clear in our experience that many employees are benefited by retirement plans. However, employers would have no incentive to establish a retirement plan without the tax incentives that are now granted under the Internal Revenue Code.

Retirement plans serve a very useful social and economic purpose. Many widows find the retirement benefits absolutely necessary to have any kind of financial existence in today's economic environment.

With Social Security in trouble, it certainly serves no purpose for the United States Government to eliminate perhaps the most important benefit available to citizens concerned about their security in their old age.

John R. Thomas

GOVERNMENT AFFAIRS
BULLETIN
Early notice of laws, regulations or other developments affecting group insurance and pensions.
Contents are unofficial and may be incomplete.
Metropolitan Insurance Companies
Metropolitan Life Insurance Company

No. 84-LA-9

LEGISLATION ALERT!

July 10, 1984

CRITICS ATTACK FAVORABLE TAX STATUS OF COST OF EMPLOYEE BENEFIT PLANS!

Serious Employer Lobbying Involvement Is Urgently Needed!

We have been warned that many people in Congress and the Administration are dead set against tax-free employee benefits. Unless major employers and unions, at the highest level, commence a concerted and effective lobbying effort, the future of continued tax-favored status for employer contributions to employee benefit plans is very bleak.

On July 26, 27, and 30, the Senate Finance Committee will hold hearings on certain aspects of the taxation of so-called fringe benefits. On the reverse side is a summary of the issues to be considered and the time frames for testifying or for submitting a written statement for the record.

If business and labor are not interested in this issue, then it is likely Congress will "simplify" the tax law either by treating the employer-paid cost of life, disability, health care, pension and other benefits as income to employees, or by eliminating the deductibility of employer contributions, or both.

For this reason, even though time is probably too short for all our customers to testify, we urge them to submit a statement for the record. However, mere support of the status quo will not be sufficient. What will be helpful - indeed necessary - is employer ability to provide statistics and facts which help prove that:

- Benefits do not go mainly to the highly paid. We have seen statistics showing that about 72% of employee medical care and pension benefits go to those earning under $25,000, but that less than 3% go to those earning over $50,000. How does your company stack up to this?

- Your workers will suffer if tax-favored employer sponsored benefits do not exist. It seems obvious that lower paid workers would tend to opt for cash instead of benefits if the cost of benefits were taxable. How do the earnings of your workforce break down? Employers who know the cost of their benefit package can estimate the additional taxable income to your lower paid workers if employer costs per employee were imputed to them. Based on this, it would be easy to predict the tax impact on those workers.

Metropolitan and its trade associations will testify at these hearings, but our participation will not be enough to convince Congress to continue the current tax treatment. Involvement in this hearing by large numbers of employers is not merely important. We think it is essential.

Issues to be Considered by the Senate Finance Committee on July 26, 27, and 30

1. Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

2. What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

3. Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

4. Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross-section of employees at a lower total cost than if the Government provided the benefit directly, if employers provided the benefit on a taxable basis, or employees purchased these benefits on their own?

5. How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

6. Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

Timing of Hearing and Schedule to Submit Statements

1. Written request to testify, addressed to: — Must be received by July 16.

   Roderick A. DeArment
   Chief Counsel
   Committee on Finance
   Room 219 Dirksen Senate Office Building
   Washington, DC 20510

2. 100 copies of written testimony with a one-page summary: — Must be received by July 25.

3. Hearing dates: — July 26, 27 & 30

4. For inclusion in the record of the hearing, written statements of up to 25 pages, double-spaced: — Must be received by August 13.

What all Employers Should Do

At the very least, all employers should file a written statement to the Senate Finance Committee in support of the current tax favored treatment of employee pension and welfare benefits.

METROPOLITAN LIFE INSURANCE COMPANY'S STATEMENT FOR THE SENATE FINANCE COMMITTEE'S SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

The Metropolitan Life Insurance Company, as an insurer of 47 million persons and as an employer of 37,000 persons in the United States, wishes to express its opposition to proposals to treat as income to the employee the employer-paid cost of life insurance, disability income, health care, pension and other benefits.

Metropolitan fully concurs with the opposition to such proposals expressed in statements offered by the American Council of Life Insurance and the Health Insurance Association of America.

I urge the Committee and the media to abandon the "fringe benefit" label which has so frequently been applied to employer-provided programs for the economic security of employees and their families. It is no exaggeration to say that such programs are as important to the economic security of American workers and their families as the Bill of Rights is to their political security. Indeed, I respectfully request that each member of the Congress consider the importance of the benefit program provided to him or her as the best evidence that it is central to their well being rather than "fringe".

The answers to the six issues posed by the Subcommittee all support the conclusion that the employee benefit plans in America constitute a foundation of economic security for American families that the tax policies adopted by the Congress were designed to broaden and strengthen. The consequences of imputation of current income will, to the extent that workers prefer to maintain that security system, serve as a direct and broad tax increase on all workers, and to the extent that workers may opt out of the system to avoid those taxes, will narrow and weaken that foundation of economic security.

Before turning to the six questions on which comments were sought, I would like to put the question of employer-provided benefits in perspective by recalling some of the fundamentals in the division of responsibility between the public and private sector for the economic security of the American worker and his family.

A very effective system has evolved in this country whereby a floor of protection is provided by a mandatory tax-financed Social Security program, supplemented and augmented by privately financed employee benefit plans and by individual initiative and effort.

The public system provides modest pensions upon retirement because of age or disability, survivor benefits, and benefits meeting less than 45% of medical care costs of the elderly and disabled.

Private sector benefits typically include life insurance, pensions, medical benefits for active employees and retirees, and their dependents, and benefits not covered by public programs, such as dental and vision care.

Together, public and private programs protect workers, retirees and dependents against significant health and economic risks, provide families with economic stability, and minimize the number of indigent individuals who require public assistance.

Traditionally, public policy has been to encourage, through tax incentives, development of a privately financed benefit system. The advantages of such a policy are clear. It permits flexibility in benefit design to meet varying needs of individuals, it encourages competition in the private market to provide benefits, it provides funds for capital investment, and it minimizes the burden on the federal budget and taxes on employers and employees. The dimensions of the private benefit system are vast.

During 1982, the most recent year for which data are available, American employers provided $7.2 billion in contributions for employee life insurance, $65.2 billion for pensions and/or profit sharing, and $65.7 billion for medical benefits for employees, retirees and dependents.

Benefits of employer sponsored programs are widely available to a broad cross-section of the labor force without discrimination, and most of the beneficiaries are in low and middle income households. Group health insurance benefits cover 162 million employees and dependents under age 65, and it is estimated that an additional 8 million retirees and dependents are covered by group health contracts. Health insurance benefits generally do not vary with income. Provisions which are income-related, such as deductibles, do not disadvantage low-income workers. Participation and vesting provisions of private pension programs are nondiscriminatory, regulated by ERISA.

The distribution of coverage by income shows that imputing income for employer-provided benefits would be especially onerous for those with modest incomes: 73% of those with health coverage in 1982 earned less than $25,000; less than 3% earned over $50,000; 71% of those with pension coverage in 1982 earned less than $25,000; less than 3% earned over $50,000. Virtually all Metropolitan employees are covered by our pension and welfare benefit programs on a non-discriminatory basis. Using

current data, 82% earn less than $25,000; less than 2% earn more than $50,000.

Imposing a cap on tax-exempt health premiums would place at a disadvantage older employees and those in high-cost areas; could raise, rather than lower, costs by stimulating adverse selection; and would undermine current cost containment efforts as employers and employee groups dropped coverage for less expensive alternatives to hospital care while retaining basic benefits for hospitalization.

Premiums for life insurance in excess of $50,000 are already taxed. Since amounts of group term life insurance below $50,000 generally covers lower-paid employees, taxing premiums for these coverages would increase taxes for workers at the low end of the income scale.

If employer-paid benefits were to be made taxable to the employee, the take-home pay of workers would be reduced. This approach would tend to be regressive, with the most adverse effects on lower and low-middle income groups whose discretionary income and saving are minimal or even nonexistent. This could result in one of the following courses of action by labor:

(1) Demands for higher wages to offset the drop in take-home pay; or

(2) Pressure to increase take-home pay by trading off benefits for higher wages. Faced with immediate tax liabilities for future benefits, many low-income families would forego some, if not all, of the benefits. That would seriously weaken the defenses of this most vulnerable group against economic adversity.

The first approach would be inflationary, increasing the costs of production for private business, raising the cost of government generally, and, of course, raising the cost of government transfer payments, most of which are indexed to the pace of inflation in the economy.

The second approach would make it more difficult for individuals to meet emergency situations caused by death, illness, or disability -- particularly for individuals in the lower and low-middle income groups who have less discretionary income or accumulated saving with which to pay off unexpected and large bills. Under such conditions, political and social pressures for the government to "do something" could be expected to increase expansion of existing entitlement programs to give needed protection for low-income workers. The net effect would be a transfer of the private insurance function to the public

sector, and at greater expense. In the long run, the resulting additional costs of public programs would far outweigh the additional revenues to be secured in the short run by taxing employer contributions to employee benefits.

In the case of pensions, saving and investment plans, and Keogh-IRA type arrangements -- all designed to facilitate retirement living -- a very significant side effect would probably be a redirection of saving flows from the private to the public sector, with all its adverse implications for private investment and future productivity growth. The latter, of course, is the means by which our working population can enjoy rising standards of living while still providing for the needs of the elderly and the economically disadvantaged. Productivity growth also is one of our best weapons to combat inflation.

The "tax expenditure," that is the revenue that would have been received by the federal government if employer contributions were taxed to employees, is estimated to be about $2.2 billion in fiscal 1984 for group life coverage provided to employees. By contrast, death benefit payments under group life contracts currently amount to about $7 billion annually. Some of these benefit payments do end up being included for federal estate tax purposes, and future investment income flows from the insurance proceeds also end up being taxed. Whether such investment pools and resultant income flows would be available to surviving beneficiaries, if group premiums paid were subject to tax, is questionable.

Group life insurance coverage in the U.S. has grown rapidly and has become an important factor in helping the private sector to provide for its own emergency needs. Group life inforce totaled $2.2 trillion at the end of 1983 equal to almost 10 months coverage of income. This compares with about 2½ months coverage of income back in 1950. Moreover, group coverage has grown far more rapidly than personal insurance coverage, accounting for 46% of coverage now compared to about 21% in 1950. This growth reflects the disciplined approach of collecting premiums on a periodic basis, with coverage frequently tied directly to income growth, and with employers paying all or part of the premiums costs. Not only has the dollar amount of coverage increased over time, but the number of people covered has increased significantly both in absolute terms and as a percent of the workforce. The great bulk of this coverage, roughly 90%, is associated with contracts with employer-employee groups.

While group life insurance is generally associated with active employees, many retired employees continue to receive group coverage, thereby helping to meet some of the financial needs of the elderly.

Has the limited exclusion of group life premiums from federal taxation resulted in the sale of too much insurance? I hardly think so -- 10 months coverage of income by group insurance and 21 months coverage of income by all insurance provides funding for a period of family adjustment after the loss of an income-earner, but that is all.

The tax expenditure for group health insurance is estimated to be about $18 billion in 1984 and that for disability insurance is about $120 million. Benefit payments under group contracts by private health and disability insurers (excluding Blue Cross and Blue Shield) run about two and one-half times that amount annually. To the extent that any efforts to eliminate this tax expenditure would result in reduced coverage, various tradeoffs would cut into the net revenue increase to government. One tradeoff would be some shifting of the burden to the government sector, meaning higher expenditures, and a second would be the higher medical care deductions on personal income tax filings.

Group health insurance protection also has grown over the years, partly in response to its tax treatment, and this has been accompanied by the improved well-being and longevity of the population. The number of persons, for example, with major medical expense protection provided by group insurers (excluding the Blues) has grown from less than 100,000 in the early fifties to more than 100 million in the eighties. Benefit growth has been equally impressive, in the case of group insurers expanding from just $438 million in 1950 to over $44 billion in 1982.

The estimated tax expenditure for pension plans is about $50 billion in 1984, exclusive of any Keogh or IRA-type plans. Contributions to insured pension plans were about $18.7 billion in 1982 and $16.5 billion in 1983. Unfortunately comparable data for noninsured private pensions are not available. However, 1982 data for state and local pension funds would show employer contributions of about $21.8 billion while the Federal Government's employer contributions under the Civil Service Retirement System amounted to about $19½ billion. For equity considerations, it would seem that the latter would be subject to taxation, if the unfortunate decision were made to make employer contributions immediately taxable.

Immediate taxation of any retirement benefit contributions would undoubtedly result in reduced coverage and ultimately a probable transfer of at least some costs to the government sector. In addition, these pension benefits ultimately do get taxed as income, although admittedly at lower rates than if taxed during an individual's working years. Given the increase in the old-age dependency ratio that is occurring, and which will accelerate rapidly in the next decade, and particularly in the early parts of the next century, this is an area where private initiatives should be encouraged, not discouraged.

With such growth in the importance of pensions in providing retirement income, and in view of the fiscal plight of the Social Security system, the best public policy would clearly be one which encourages the further growth of pensions by tax incentives. By liberalizing the Individual Retirement and Keogh provisions of the Internal Revenue Code, Congress has given explicit recognition to the need for stimulating additional savings in the private sector. The current proposals would discourage such savings by further tax burdens.

I recognize the need for further Congressional action to reduce the level of the deficits, but I urge the Committee not to take that step, even in part, by subjecting American workers to additional and onerous tax burdens disruptive of a benefit system which is the keystone of the standard of living for most families.

I.

The first of the six issues is:

> "Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?"

The tax law should continue to encourage employers to provide employee benefits; the current type and level of benefits contributing to the economic security of workers and their families deserves preservation. I rest this conclusion upon three bases.

First, most employer-provided benefits have incrementally evolved -- partially through collective bargaining and partially through employer perceptions of emerging employee needs -- over a period dating essentially from the Second World War. Those benefits have been adjusted as their relative importance changed and through market sensitivity to those changes. To upset the net product of those decades of bargaining, negotiation and adjustment to change would be a disservice to the entire workforce of our Nation.

Second, most of the employer-provided benefits -- certainly life insurance and health insurance -- are not paid to the employee. They are paid to others: the providers of health care in the case of health insurance, and the employee's surviving spouse and/or surviving children in the case of life insurance. Thus, when taxable income is imputed to the employee for a benefit which does not reach him in the form of cash, he must forego other expenditures -- often essential to the well-being of his family -- to pay the additional income tax. In short, imputed

income is the most onerous basis for taxation simply because there is no cash from which the tax can be paid.

Third, there is a substantial danger that many employers and employees groups would respond to the proposed imputed income by eliminating the benefit altogether. That could lead to federal government expenditures well in excess of the revenue currently foregone by not imputing income. That result could flow from a severe increase in the number of widows and children forced on to the welfare rolls by the absence of life insurance, by the withdrawal of group health insurance protection from families with major medical expenses, by the failure to provide disability income protection for severely afflicted or injured employees and their families, and by the loss of pension protection for the retirement years. Both the economic and social consequences of such public policy regression would be disastrous.

II.

The second of the six issues, on which views have been invited is:

> "What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?"

Only three conditions or restrictions are needed; all, in one form or another, are already in force.

First, the tax incentive should be available only on a non-discriminatory basis: i.e. the benefit in question must be available to employees on the basis of an equitable formula which doe not discriminate in favor of key employees.

Second, eligibility for the tax incentive should require the employer to provide fully adequate funding assurances that the promised benefit will be delivered.

Third, the benefit must be designed to assure the employee and/or his family of protection against some form of economic risk of loss.

III.

The third of the six issues is:

> "Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?"

We believe this question deserves an affirmative answer. Fairness to employees, that is, a nondiscrimination requirement, has long been a statutory condition of the employer's authorization to treat the cost of pension benefits as a deductible expense and of the employee's ability to exclude the cost of the benefit from income. The courts and the Internal Revenue Service have effectively enforced compliance with that condition. In recent years, nondiscrimination standards have been applied by Congress to a wide variety of welfare plan benefits as well.

IV.

The fourth of the six issues is a premise for three questions:

> "Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross-section of employees [A] at a lower total cost than if government provided the benefit directly, [B] if employers provided the benefit on a taxable basis, or [C] employees purchased these benefits on their own.?"

Part A of the question lends itself to summary disposition. Some functions should and can only be discharged by government while others can be discharged more efficiently by the private sector. Anybody who has ever been active in the insurance business either as a provider or purchaser of group insurance can tell you it is by far the most competitive area of insurance. Differences of a few cents per employee or a few basis points on interest credits can determine which company receives the contract. Under such conditions efficiency and the ability to deliver service at the lowest price receive top consideration and attention. Product innovation in such a competitive environment is not a by-product but a requirement for survival. With government as the sole supplier these conditions would not exist.

In the case of pensions, there exists a second and even more important reason for Congressional rejection of the option of government as the sole provider. Our Nation faces a critical need for investment capital during the decade ahead. The investment capital is needed for such essential purposes as the creation of about 15 million additional jobs at a cost of about $100,000 each, for modernization of production facilities and enhanced capacity to compete, ecological rehabilitation, urban renewal and repair or replacement of an aging infrastructure. If all pension savings were to flow to the federal government, the strength of the private sector -- the ultimate source of all federal revenue -- would be seriously eroded.

The Social Security system uses yesterday's tax receipts to pay today's benefits, thus adding nothing to the Nation's stock of investment capital. The private sector pension programs, which are funded for many years before payment, however, provide a significant share of that capital.

Part B of the question also lends itself to summary disposition. Given the intensity of modern competition, especially from corporations whose country of domicile may impose less extensive tax and labor costs, major increases in employment-related taxation would catalyze a triage of domestic employers: some would withdraw or reduce benefits to American workers. Others would utilize further mechanization to lower their labor costs, thereby reducing employment opportunities, particularly among unskilled or semi-skilled workers. Still others would be unable to compete and be forced out of business by more stringent tax policies.

Part C of the question contains three fallacious assumptions: first, that all benefits now provided on a group basis would be available through individual policies; second, that even if available, they would be at a cost comparable to that which has been paid under the employer's group policy; third, that if available and at a reasonable cost the employees would not demand an increase in their after-tax wages adequate to cover the cost of purchasing their own benefits. The impact of the latter trend across the American labor market is both obvious and wholly inconsistent with the on-going battle against inflation.

V.

The fifth of the six issues is:

> "How will tax laws that encourage employers to provide fringe benefits affect compensation planning?"

Under the current tax incentives for employer-provided employee benefits, compensation planning has recognized that if capable people are to be recruited and retained as employees of the corporation, both the salary scale and the scope of employee benefits must reflect the marketplace standards. Those standards differ among geographical areas at any one time, and within the same geographical area from year to year. Indeed, that is the genius of reliance upon competition with the labor market rather than attempting a countrywide standard which would be appropriate in some locations for limited periods of time, but not in all locations at all times.

VI.

The sixth and final issue is:

> "Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?"

Standing alone, no; as a part of the total compensation program within a specific industry in a specific area, yes. But, given the nondiscrimination rules to which reference was made earlier in my testimony, the effect would be fair and equitable.

The so-called "tax expenditure" related to employer-paid employee benefit plans is misleading as a measure of government's net revenue loss because it does not reflect the substitution of private outlays for what would otherwise require government outlays. It also ignores positive impacts on other sources of taxable income and alternative deductions that individuals would be entitled to take if current tax treatment of benefit costs did not exist. Taxation of such employer contributions would tend to reduce benefit coverages that currently exist, impose a hardship on many individuals, and generally ignore the very considerations of social policy that caused company benefit payments to be made exempt in the past.

John J. Creedon
President and Chief
Executive Officer

August 1984

Midwestern United Life Insurance Company
OF FORT WAYNE, INDIANA
"The Partnership Company"

MARVIN R. NELSON, F.S.A.
President

July 19, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219, Dirksen Senate Office Building
Washington, D. C. 20510

Statement to Senate Finance Subcommittee
on Taxation and Debt Management
(to be held July 26-30, 1984)

On behalf of Midwestern United Life Insurance Company, its agents, its policyowners, and its employees, I wish to take this opportunity to assert the value of employer-sponsored employee benefit plans.

The tax law should encourage employers to provide benefits for these reasons:

1. In the welfare benefit area, providing health, dental, and other coverages means a healthier, more productive employee. Life and disability insurance can help keep disabled employees and beneficiaries of deceased employees off welfare rolls and other government-sponsored programs.
2. Many employees would not maintain adequate coverages on their own.
3. By providing programs on a group basis, there is the economics of scale and the cost savings involved. Some coverages, for example, may not even be available to a person on an individual basis.
4. While this hearing may be devoted primarily to the welfare benefit area, I believe that employee benefits must be considered as a whole -- including pensions, compensation, and other employee matters. In the pension area, good employer-

7551 West Jefferson Boulevard • P. O. Box 929 • Fort Wayne, Indiana 46801 • (219) 432-1551

sponsored pension plans can help people retire with dignity and security. Social Security has already grown beyond its original concept of providing a floor of protection against poverty, and the resultant cost problems associated with that program are well known. Private plans need to supplement Social Security to give a quality to life after retirement not possible by mere subsistence levels of benefits. Profit sharing and stock bonus plans give employees a stake in the productivity and profitability of the organization and raise the overall level of productivity of the nation. Section 401(k) plans and contributory features of other qualified plans give employees a "forced savings" mechanism and allow them to participate in higher yielding investment vehicles than might be available on an individual basis. The private pension industry, including IRAs, provide much needed capital for expansion. As every economist knows, one must forego current consumption for capital appreciation. Instead of all compensation being currently spent (and causing high inflation), some can be set aside for the future. Those invested funds are in turn used to provide new plant, equipment, modernization, etc., for higher, more efficient levels of production.

5. Employee benefit and personnel people can help see that employees have a balanced program of welfare and pension benefits. They can provide assistance in seeing that benefits are adequately funded. Further, each employer in each locality is in the best position to tailor benefits to the needs, expectations, and circumstances of people in the particular area.
6. Benefits help maintain the stability of the work force and thus reduce turnover and training costs.

Existing rules are sufficient to ensure that all employees are treated fairly. Unfortunately, the conditions and restrictions sometimes imposed are so complex and diffi-

cult to follow that they may work to discourage employers from providing benefits. In the pension area, for instance, ERISA has had a dampening effect on defined benefit plans. TEFRA's rules on controlled groups, overall plan limitations, and top heavy provisions are all but incomprehensible even to experts in the area. A way needs to be developed to accomplish the stated objective of fairness without the extreme degree of complexity and red tape. A further problem is the number of legislative and regulatory changes which continue to occur. It is disconcerting to observe that many of the technicalities which have burdened the qualified plan area are now being carried over to the welfare plan area. Small employers cannot afford all the legal, actuarial, and accounting assistance necessary today to have certain plans; and there is no question that overregulation is a negative to providing adequate benefits.

In my opinion, government definitely could not provide employee benefits at cheaper cost, taking into account the loss of tax revenues from their present tax-advantaged status. Government programs could not provide all the flexibility needed to tailor individual programs. We would merely have more bureaucracy delivering an unacceptable program in an inefficient way. The way to attack the budget problem is not by damaging the socially and economically important employee benefit field.

Finally, we believe the current types of benefits available should be allowed to continue.

Thank you for the chance to express our position. We ask that you please include this Statement in the printed record of the hearing.

Sincerely,

Marvin R. Nelson

MRN/bjc

20 Morton Place
White Plains, NY 10603
July 20, 1984

Mr. Roderick A. de Arment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. de Arment:

This letter is to express my concern that the traditional fringe benefits that have been made available to America's work force may soon become taxable. If these become taxable, it will adversely affect the current income of every employee so covered by non-taxable fringe benefits and require an increase in the wage spiral. To offset the loss of employee income, companies will find it necessary to increase their payrolls. An increase in payroll will be felt in an increase in prices and, most likely, in inflation.

Furthermore, there is a tradition in this country for providing for the welfare of an employee so that they may be free of worries of catastrophic illness, impact of death on the financial stability of their families, etc. This creates a more stable, productive work force.

In my experience as a senior administrator of a large national organization and as a consultant to many companies and organizations across the country, I wholeheartedly recommend that the current, customary fringe benefits, including retirement income remain tax free.

Sincerely,

Frederick T. Miller

dm

W. L. MILLER, M.D.
PATHOLOGIST

TELEPHONE
(502) 338-0331

W. L. MILLER, M.D., P.S.C.
P. O. BOX 836
GREENVILLE MEDICAL PLAZA
GREENVILLE, KENTUCKY 42345

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management. I would like to answer in turn each of the six accusations these hearings have made against the private employee benefit plan, to wit;

#1. "serves no useful social or economic purpose", plan which W.L. Miller, M.D., PSC has in place serves a very useful economic purpose in providing benefits not otherwise available.

#2. "primarily benefits highly paid employees", statement with which I would not disagree nor find fault nor apologize. The feeling in this country apparently is developing that only poor and unproductive employees and people deserve consideration when proper good work ethic dictates the opposite.

#3. "would survive absent tax incentives", might possibly survive these incentives since most of the benefits are essential to employees'welfare but would have to be paid or made up in some mannor and ultimately redown to the cost to the consumer through increased prices for products or services.

#4. "should be eliminated in favor of IRAs and IRA type vehicles", this would be a possibility but not practical since IRAs are not universally accepted and should not have to be encouraged just for the purposes of increasing employee benefit plans.

#5. "could be eliminated without any adverse impact on Social Security System", which may or may not be true but seems to be beside the point.

#6. "has no grass roots support", which is an idiotic statement with which I do not relate at all, grass roots by whom? and under what conditions? and who's roots are we talking about?

Thank you for your assistance.

Sincerely,

W.L. Miller, M.D.

WLM/db

STATEMENT OF MILLIKEN AND COMPANY
IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT
ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27 AND 30, 1984

SUMMARY

1. Increasing costs of benefits will be paid by consumer as higher prices and/or higher taxes.
2. Flexible spending accounts can be an effective tool in containing medical care costs.
3. Group life insurance non-taxable limit needs to be adjusted for twenty years of inflation.
4. Reducing private sector retirement plans will only shift burden to public sector.
5. Excess defined benefit plan funding does belong to employer.
6. PBGC premiums need to relate risk to premium.
7. Distribution rules and taxability of distribution needs simplification.
8. 401 (k) excellent retirement tool. Don't contract it - expand it.

We provide a wide variety of benefits for our employees. All of these have been voluntarily established by us and most have been inplace for 30 or more years. They include a Group Medical Program with a flexible spending account, Group Life Insurance, Accident and Sickness Insurance, Paid Vacations, Paid Holidays, Scholarships, which cover only our wage earners and their dependents, and Retirement Plans. We have provided these benefits to help us attract and retain employees at all levels.

Insured benefits are provided to give employees and their dependents protection against large unanticipated expenses. Retirement benefits are provided to enable employees to retire and to continue to maintain their standard of living in retirement. We are in an extremely competitive industry subject to both domestic and foreign competition. The cost of the benefits we provide is of great concern to us. It is like any other costs that we have and ultimately translates into part of the costs we pass on to our customers in the prices we charge for our products. In general if the cost of benefits rises we have to raise the price of our products. Anytime we do that we may loose our competitive edge, see our profits reduced, our business shrink, and imports grow.

Many of the plans we have were put in place because of advantageous tax policy, tax policies not only advantageous to us as an employer but also to the participants of those programs. If the tax policy for employee benefits becomes more stringent, basically there will be two things that can happen; (1) the cost of benefits will increase and we will have to increase our prices and become less competitive in world markets. And of course when we increase our prices that ultimately translates into a higher price paid by the ultimate consumer of the products we manufacture. (2) Benefits levels will be reduced or not increased to maintain current costs levels. If this course is pursued, participants will have less coverage and put more pressure on the public sector for replacement or provision of the benefit from the government. This will increase government's costs. When government's costs rise it translates into higher taxes. And ultimately all taxes are paid by the consumer.

If the cost of providing employee benefits becomes more expensive one way or another the consumer will pay the bill whether it be in the form of higher prices of higher taxes.

We like many other employers and the public sector are concerned about the ever rising costs of medical care. We applaud the effort to contain medical costs and to bring them down. However, we know that most of the efforts taking place today are in the area of

holding the line on physicians fees and hospital costs. We see little providing incentives to individuals to encourage them to be more efficient consumers of medical costs. We like many others recently established flexible spending accounts as a means of encouraging some cost containment. Thirty-four % of our wage earners and 57% of our management people participate. We originally established such accounts with the provision that any dollar that is not spent would either be returned to the individual or be allowed to be placed in a retirement savings program. IRS proposed regulations now require that for programs of this nature if there are any unused funds at the end of the year, they must be forfeited by the participant. We believe that rather than encouraging cost containment that this philosophy will encourage exactly the opposite. For if an individual is not able to either receive his money back in the form of taxable income or save it for retirement than he will be encouraged to spend it since if it is not spent it will be lost. We would like to urge the Congress to reconsider this matter and to recognize that the flexible spending account can be a very useful tool in encouraging cost containment and thus reducing medical costs nationwide in both the public and private sector.

It has been over twenty years since the Congress last set a limit as to the amount of group life insurance that may be provided without subjecting the recipient to any taxes. Since this was established in the sixties we have been subject to many years of high inflation. The limit as established then was $50,000. It would appear reasonable given the inflation of the last twenty years that the limit should be raised to perhaps two to two & half times it's present level. While $50,000 may seem like a great deal of money when paid as a death benefits, it is not adequate to provide the beneficiaries with sufficient funds to enable them to replace the lost income of the deceased employee.

We have had retirement programs in place since 1946. We have voluntarily provided all of these. When combined with Social Security benefits, they provide our retiring employees with incomes which will enable them to retire with financial dignity. In general we

encourage the Congress not to over regulate the voluntary private pension system, which provides benefits to many many millions of American. Were it to be significantly reduced it would simply put more pressure on the already over burdened Social Security system and enormously increase the already high taxes that both employees and employers pay into the system.

When ERISA was passed ten years ago, it basically codified what most responsible employers in this country were already doing. Fiduciary standards, the need to communicate with employees, and the need to deliver benefits promised were things that these responsible companies were already doing. One very important aspect of ERISA was establishing funding standards to be certain that dollars would be available at retirement to pay the promised benefits. We applaud that effort. We have always believed that the only responsible way to fund retirement programs is to set aside the required dollars in an orderly fashion. Like many employers who have been funding plans for many decades, we have done so expecting that if they were ultimately overfunded; that is there were excess funds after all liabilities of the plan were paid, that those excess funds would revert to the employer as taxable income. We encourage the Congress not to do anything to change this. If legislation is considered which would penalize overfunding resulting from adherence to ERISA funding, we believe it would have a chilling effect on the funding of plans. Employers would opt for minimal funding methods so that they would not face the eventual penalty of losing excess assets.

Such funding methods would result in fewer assets being available for promised benefits and would tend to increase the likelihood that the Pension Benefit Guaranty Corporation, the government insurer of benefits, would have liabilities and costs increased. It is also possible that facing the eventual penalty of losing excess assets that employers would not establish pension plans at all, but rather opt for profit sharing arrangements where the investment risk would be borne by the participants alone.

While we recognize the need for the PBGC premiums to increase we are disappointed that such premiums have absolutely no relationship to the risk involved for the payers of premium. Whether the plan is well funded, poorly funded or barely funded makes no difference whatsoever. The premium is exactly the same. We would encourage the Congress to consider having the premium paid on a basis that would be more consistent with the relative risk of each plan.

Rules that presently exist for distribution of benefits from qualified retirement plans and the subsequent taxation of those benefits are extremely complex. We all should remember that the recipient of these benefits are generally unsophisticated taxpayers. Simplification in this area is highly desirable. It would be a sad situation if two individuals similarly situated would wind up with different amounts of after tax retirement income simply because of their abilities to interpret complex income tax regulations.

We applaud the addition of Section 401.(k) of the revenue code under the Revenue Act of 1978. This has provided an economically efficient, socially desirable way of enabling individuals to set aside monies for their retirement. We have provided our employees the ability to utilize this feature and 98% of our eligible wage earners and 50% of our eligible management employees now use this tool as a way to increase their retirement income. It is also important to remember that contributions under 401.(k) are tax deferred and that the tax will ultimately be paid when these benefits are paid out at retirement. We would encourage the Congress not to do anything to constrict this benefit and would further encourage them to consider expanding it.

95% of the assets of our retirement plans are for our lower paid employees. Only 5% of these assets are for the highly compensated.

MILWAUKEE PAINTERS LOCAL UNION No. 781 HEALTH AND VACATION FUNDS
9733 WEST GREENFIELD AVE.
WEST ALLIS, WISCONSIN 53214
Phone: 259-1520

Contractor Trustees
T. KOENIG
R. SKROBIS
W. HAEBERLE

Union Trustees
KENNETH POWELEIT
ROBERT KOVACIC
JOHN SHURLA

August 8, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Employee Benefit Hearings

Dear Sirs:

Health and Pension benefits were started because of the American family's needs. Your Subcommittee should look elsewhere for tax dollars for Debt Management. Private enterprise has built an effective and efficient employee benefit program which meets the needs of employees and is an efficient provider. Taxes on Health and Pension Fund contributions are not in the best interest of the American people, the benefits are a just need for their well-being.

Very truly yours,

MILWAUKEE PAINTERS LOCAL UNION
NO. 781 HEALTH & VACATION FUNDS

John Shurla

John Shurla,
Secretary-Treasurer
BOARD OF TRUSTEES

JS:ojk
opeiu#9
afl-cio

Summary of
Statement of John A. Hanson
Vice President, Human Resources
Minnegasco, Inc.
In Connection With The
Hearings of the Senate Finance Subcommittee
On Taxation and Debt Management
On the Subject of Fringe Benefits
July 26, 27 and 30, 1984

Minnegasco, Inc. is the largest natural gas distribution company in Minnesota and the 13th largest in the United States. We are headquartered in Minneapolis and serve 573,168 residential, commercial and industrial customers in Minnesota, Nebraska and South Dakota. We employ about 2,000 employees in these three states. Approximately 1,300 belong to one of five unions.

One of our objectives in providing benefits is to help our employees avoid financial hardship. Minnegasco first introduced its benefit program in 1948. Recently, the mounting costs of benefits has encouraged us to introduce cost containment strategies, including those authorized under provisions of the Internal Revenue Code. Employees—98.5% of whom receive annual incomes of less than $50,000—are more willing to share in the cost of their benefit package with the option to fund these benefits with "pre-tax" dollars.

On January 1, 1984, we introduced a Flexible Benefit Plan. The plan takes advantage of favorable tax provisions and includes a 401(k) savings plan feature, medical and dental care, life insurance and disability coverage. In addition, we offer health care and dependent care reimbursement accounts. Minnegasco introduced this new plan realizing that (1) today's workforce is dramatically different from the workforce of 10 years ago, and (2) employees desire the opportunity to tailor their benefits to meet individual needs.

Benefit plans are expensive. Last year, Minnegasco made a direct cash payment for benefits in excess of 35 percent of payroll. Added to that is the cost of compliance and administration. Therefore, we are very interested in controlling benefit costs.

As a regulated public utility, we are permitted to recover our costs of doing business—including benefit costs—in rates we charge our customers. To ensure the most favorable rates for our customers, we must manage all our costs well. If current benefit cost trends continue, we may be unable to provide the current benefit levels to our employees and maintain reasonable rates to our customers. If that happens, the pressure will be to cut benefits or otherwise provide the same benefits from government.

Minnegasco has been innovative in the area of benefit design. We have selectively included in our benefit plan those features that most effectively serve the needs of our employees. Such a benefit plan has a positive influence on controlling costs and encouraging employee involvement and awareness. While the plan utilizes a favorable taxing provision, it was not implemented just to receive a tax advantage.

In conclusion, Minnegasco is supportive of tax laws that encourage employers to provide benefits to all employees. It is imperative that the tax laws be structured to provide some relief from the rising costs of benefits.

Statement of John A. Hanson
Vice President, Human Resources
Minnegasco, Inc.
In Connection With The
Hearings of the Senate Finance Subcommittee
On Taxation and Debt Management
On the Subject of Fringe Benefits
July 26, 27 and 30, 1984

Background Information

On behalf of Minnegasco, Inc., I appreciate the opportunity to present this testimony on the issue of employee benefits.

Minnegasco, Inc. is the largest natural gas distribution company in Minnesota and the 13th largest in the United States. We are headquartered in Minneapolis and serve 573,168 residential, commercial and industrial customers in Minnesota, Nebraska and South Dakota. We employ about 2,000 employees in these three states. Approximately 1,300 of these employees belong to one of five unions. These unions cover both traditional workers in the construction and service areas and also clerical employees. The remaining 700 employees are either administrators, professionals (500), or clerical (200).

Introduction

Employer contributions for employee benefits have increased from approximately 10 to 35 percent of payroll since Minnegasco introduced its benefit program in 1948.

The mounting cost of employee benefits is encouraging us to

identify cost containment strategies. We have been able to implement some of these strategies, including those authorized under provisions of the Internal Revenue Code such as salary reduction 401(k) plans and Section 125(d) spending accounts, which allow employees to pay part of their benefits cost with pre-tax dollars. We have found that employees are more willing to share in the cost of their benefit package with the option to fund these benefits with pre-tax dollars. They are also more willing to choose higher deductible medical plans if they have the option of funding the deductible through these spending accounts.

Benefits at Minnegasco, Inc.

The majority of our employees, 98.5%, receive an income of less than $50,000. One of Minnegasco's objectives in providing benefits is to help protect employees from financial hardship in the event of:

- major medical expenses,
- loss of the family provider,
- loss of income due to time away from the job because of illness or injury, or
- retirement.

On January 1, 1984, we introduced a Flexible Benefit Plan. This plan currently covers our management, professional and non-union clerical employees as well as one bargaining unit. We are currently negotiating with our two largest unions, and the Flexible Benefit Plan is of special interest to both of them.

This plan takes advantage of favorable tax provisions. Employees are able to deduct 401(k) savings plan contributions, health, dental, and (subject to legal limitations) life insurance premiums from taxable income. In addition, a "health care reimbursement account" is offered to employees. Employees may pay for medical

expenses not covered by the regular medical and dental plans with pre-tax dollars. Employees can set aside up to $1,500 of pre-tax contributions each year to establish a "health care account." In addition, the Company currently contributes $300 per year to that account.

If employees must pay for dependent care to work, they may establish a dependent care account at Minnegasco. The maximum dollar amount that can be set aside in this account is $4,000 each year. Like the "health care reimbursement account" this is also established with pre-tax contributions.

The amount of employee contributions is determined prior to the benefit plan year. Caps have been placed on these contributions to insure equitable treatment of our employees.

Minnegasco introduced this new benefit plan realizing that today's workforce is dramatically different from the workforce of 10 to 15 years ago.

- The ratio of male-to-female employees has changed.
- Dual income families are now more typical than single income families.
- Single parent families have increased.

Each of these groups have different needs.

Our Flexible Benefit Plan is intended to recognize these differences and allow more discretion in tailoring benefits to individual employees' needs. The plan offers options to help control costs and to give employees coverages that were not previously available, such as long term disability covarage and dependent care coverage.

Benefit plans are expensive. Minnegasco made a direct cash payment of 35 percent of payroll to benefits last year. Plan

administration, in addition to responding to and complying with government regulations, add substantial dollars to the cost of these benefits. Minnegasco is very interested in controlling benefit costs.

Our business environment is changing. Changes in the demand for our product--energy--has created a more competitive environment. Profits depend upon (1) the regulatory environment and (2) the ability to compete with other non-regulated forms of energy.

As a regulated public utility, we need to be efficient to ensure the most favorable rates to our customers. Minnegasco realizes that benefit costs must be managed along with other costs of doing business. If cost trends continue at their current rates, we may be unable to provide the current benefits levels to our employees.

One of Minnegasco's objectives is to use plan design as a way to control benefit costs. Our medical plans now have higher deductibles, second surgical opinion, home health care, hospice care, and 100% coverage for outpatient care. Our pension plan has been complemented by a PAYSOP and a savings plan that offer the attractive pre-tax savings feature as other vehicles for retirement savings. These plans enhance the benefits to be received from Social Security.

We are currently involved in a comprehensive study of our medical benefit program. Objectives of the study include:

* exploring alternative delivery systems,
* better ways to fund benefits,
* employee education and wellness,
* offering retirees options to their medical coverage which will help relieve the pressure on medicare, and

- finding ways to get employees back to work after long-term illnesses or disabilities so that they become productive members of society again.

Conclusion

Minnegasco is supportive of tax laws that encourage employers to provide employee benefits. Benefits should be offered if they meet sound, constructive benefit strategies, not just because of the tax advantage. We have selectively included in our benefit package those features that most effectively serve the needs of our employees. Minnegasco has been innovative in the area of benefits design. We have not put in plans just because of tax laws. We feel strongly that these additions have provided Minnegasco employees with (1) cost effective, comprehensive benefits that meet their needs and (2) a benefit package that has a positive influence on controlling cost and encouraging employee involvement and awareness. While we don't think employees choose an employer just because of its benefit package, we do feel a benefit package can influence an employee's decision. It gives them a sense of security for their future. We need relief from the rising cost of benefits and the administrative costs of responding to increasing government regulations. The tax laws in this area help meet this need and should be continued.

Thank you for the opportunity to present Minnegasco's views to the Subcommittee on this important issue.

STATEMENT OF MINNESOTA POWER IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE COMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS

July 26, 27, and 30, 1984

STATEMENT OF MINNESOTA POWER,
DULUTH, MINNESOTA

On behalf of Minnesota Power, I would like to thank the Subcommittee on Taxation and Debt Management for the opportunity to present this statement.

Minnesota Power is a regulated utility in northern Minnesota. It supplies electrical power to about 103,000 consumers in northern Minnesota. It also supplies electrical power, water and gas consumers in northwestern Wisconsin through its wholly-owned subsidiary, Superior Water, Light & Power Co.

Minnesota Power has 618 employees represented by collective bargaining agreements and 810 exempt and non-exempt salaried employees. The Company is one of the largest employers in its service area.

The benefit program is a very important part of the total compensation of employees at Minnesota Power. For 1983, Company payments for all benefits represented the following percentages of wages and salaries:

Legally Required Benefits (Social Security, unemployment compensation, workers compensation)	8%
Discretionary Taxable Benefits (Paid time off and other taxable benefits)	14%
Discretionary Tax-Deferred Benefits (Pension plans, profit sharing plan, employee stock ownership plan, survivor income plan, and long-term disability plan)	20%
Discretionary Tax-Exempt Benefits (Medical plan, dental plan, life insurance plan, and reimbursement accounts)	4%
Total	46%

It is important to note that while discretionary Company-provided benefits cost 38% of compensation, discretionary benefits that

are not taxable either currently or in the future represent only 4% of compensation.

In addition, the Minnesota Power flexible compensation program introduced in 1979 is projected to reduce Company costs for discretionary benefits by 4% of salaries over time.

The benefit program at Minnesota Power did not just happen. It has evolved over a long period of time. It is the result of substantial amounts of study and planning. It tries to address all of these factors:

1. The changing needs of employees.

2. The financial ability of the Company to pay for benefits.

3. A fair return to shareholders in order to attract necessary capital.

4. A fair cost to consumers as determined by the various regulatory agencies who approve all rate increases.

5. Expanding governmental legislation and regulation, both on a national and state basis.

The current benefit program at Minnesota Power is doing a good job of balancing all of these factors. Rather than attempt to describe the benefit program in detail, the remainder of this statement will focus on six features that reflect how well the program works.

Medical Plan

Since 3-1-62, Minnesota Power has had a self-insured and self-administered medical plan. The plan covers all full-time employees. It also covers retirees and beneficiaries.

The plan is funded through a 501(c) (9) trust. The trust is managed by a Board of Governors made up of union-represented employees, non-union employees, and management. The Board decides what benefits the plan will provide and any changes in those benefits.

The amount of money the Board can spend for medical plan benefits is determined by the assets in the trust fund and the contributions determined through collective bargaining. In other words, the Board must try to maximize the benefits it can provide from the limited contributions it receives.

The Board of Governors has done a good job. The benefits provided by the plan meet the needs of employees. These benefits

have changed over time as conditions have changed. Just this year, cost containment features have been added to the plan to make it even more cost efficient.

Employees have pride and a sense of ownership in the plan. Because it is their plan, they have tended to use it wisely. This is demonstrated by the fact that in 1983, average monthly medical premiums (shared by the Company and employer) were $22.65 for single coverage, and $73.61 for family coverage. Even taking regional differences into account, these amounts are far below national averages.

The provisions of the Deficit Reduction Act of 1984 regarding funding welfare plans are expected to have a negative effect on this plan.

Income Protection

An important principle guiding the development of the Minnesota Power benefit program is the continuation of income in case of retirement, disability or death. Experience has shown that retirees, disabled employees, and beneficiaries have a greater need for (and are better able to manage) a continuation of income rather than large lump sum payments.

All full-time employees are automatically covered by one of two Company pension plans after age 25 and one year of service. The pension plan for union employees does not offset Social Security. The plan for non-union employees offsets a maximum of 45% of Social Security after 30 years of service. This offset is far below the maximum offset of 83-1/3% of Social Security permitted under IRS regulations.

Both pension plans automatically continue at least 50% of the retired employee's pension to his or her spouse after the retiree's death. A retiree can elect greater protection for his or her spouse if desired, but not less protection.

The importance of these plans is reflected in the fact that at the end of 1983, there were 535 retirees and beneficiaries receiving benefits. This represents over 37% of the Company's active work force.

Since 1970, the benefit program has contained survivor income benefit plans. These plans cover all full-time union and non-union employees. If an employee dies prior to retirement, a minimum of 50% of pay less primary social security is continued to the surviving spouse. Currently, about 27 individuals are receiving benefits from these plans.

In 1982, a formal long-term disability benefit plan was added to the benefit program. This plan also covers all full-time union and non-union employees. It provides at least 60% pay replacement (including any payments such as Social Security and/or Workers Compensation) in case of total and permanent disability. Currently, about 14 individuals are receiving benefits from this plan.

Cost-of-Living Adjustments

Income continuation based on a portion of wages and salaries at the time of retirement, disability or death, quickly becomes diluted in times of high inflation.

In recognition of this fact, most income continuation benefits are protected in part by a cost-of-living adjustment feature. The maximum semi-annual adjustment is equal to 3% of one-half of the original benefit.

Retirement benefits for non-union employees have been adjusted for cost-of-living since 1-1-74. Benefits for an individual who was retired on this date have increased 34%. During the same time period, the Consumer Price Index has increased 117%.

Union employees have now negotiated to be covered under this provision in their pension plan beginning in 1985. This provision was offered in earlier negotiations but rejected.

Flexible Compensation Core

Beginning in 1979, the Company introduced a flexible compensation program for non-union employees. The program provides a minimum level of protection (core), at Company expense, in two benefit plans:

o Life Insurance. Company-provided life insurance was reduced from one times pay plus $5,000 for employees earning less than $20,000 per year and one times pay plus incremental amounts of $1,000 in insurance for each $1,000 in pay up to a maximum of $50,000 total for employees earning over $25,000 per year to a flat $10,000 for everyone. Participants were given flexible credits to buy additional life insurance if desired.

o Profit Sharing. Company-provided profit sharing contributions had been 7% of pay over the Social Security wage base. With the rapid increases in the wage base ($7,800 in 1970 to $25,900 in 1980), only highly paid employees received any profit sharing contributions. The plan was changed to give all participants a minimum (core) contribution equal to at least 2% of pay. A special minimum contribution increases this percentage for very low paid participants.

Flexible Compensation Options

Under the Minnesota Power flexible compensation program, participants can elect optional levels of benefits beyond core benefits. Participants pay for the options they choose with flexible credits from the Company, pay conversion dollars from their compensation, or both. Options available to all participants include:

o Up to 3 times pay in life insurance.

o Up to 10% of pay in profit sharing contribution.

o Up to $1000 for a medical reimbursement account.

o Up to $5000 for a dependent care reimbursement account.

These options have been well received by participants at all pay levels. Average contributions and deposits for the individuals who are in the highest-paid one-third, or lowest-paid two-thirds of all participants are as follows:

	Highest-Paid One-Third	Lowest-Paid Two-Thirds
Profit Sharing Plan	5.8% of Pay	3.7% of Pay
Medical Reimbursement Account	$147,776	$170,435
Dependent Reimbursement Account	7,334	65,735

Flexible credits and pay conversion dollars not used for optional benefits are paid to participants as taxable cash. For 1983, $117,988 was paid in taxable cash to 319 participants.

Special Early Retirement

The geographic area serviced by Minnesota Power has been economically depressed for some period of time. Because of this and changes in the nature of many jobs, work force reductions have been required.

In order to continue employment for as many short service employees as possible, the Company has used two temporary earlyretirement programs. Both programs were open to union and nonunion employees.

The benefit program at Minnesota Power is doing an excellent job of balancing the five factors mentioned earlier. The benefit program protects a wide range of employees against the hazards they confront. It does this in a comprehensive and thorough fashion so that all of our employees have access to all necessary areas of protection. It is adaptable through flexible program elements allowing employees to adapt the benefit program to their specific levels of need. The program has utilized the tax code to the extent that it assists in meeting legitimate employee needs. It does not take advantage of all portions of the tax code, however. The unforunate result of continued legislation in the employee benefit area is to make it more and more difficult to balance the factors Minnesota Power deems important in considering a benefit program. In the extreme, it is doubtful that the company could continue a benefit program that is consistent with the needs of employees, stockholders, and consumers in a continued environment of negative legislation. It would be especially unfortunate if Congress through hasty and ill-conceived action were to destroy our ability to meet long-term employee needs.

Respectfully submitted,

A. J. Sandbulte

AJS:jad

cc: Senator Rudy Boschwitz
Senator David Durenberger
Congressman James Oberstar
Congressman Arlan Stangeland
Congressman William Frenzel
Peter E. Bye, Jr.

TAX IMPLICATIONS OF EMPLOYEE FRINGE BENEFITS:

A DISCUSSION OF ITS HISTORY AND THE TAX REFORM ACT OF 1984

Michael A. Mische

Management Consultant; Author, "Remedies to Wrongful Seizure, A Discussion of IRS Determination, Notification, Demand and Levy Processes," (with Jerome S. Horvitz, Esq.), The Review of Individual Taxation, (Fall 1984); Guest Lecturer, Golden Gate University, Graduate School of Taxation, New York University Graduate School of Business Administration; Education, B.S. "with honors," M.B.A. (Finance), New York University, M.S. (Taxation), Golden Gate University; Firm: Peat, Marwick, Mitchell & Co., San Francisco, California.

Jerome S. Horvitz

Attorney; Associate Professor of Taxation, University of Houston; Author, "Remedies to Wrongful Seizure: A Discussion of IRS Determination, Notification, Demand and Levy Processes," (with M. A. Mische), The Review of Individual Taxation, (Fall 1984); Member, American Bar Association, Massachusetts Bar Association, Tax Section - American Bar Association, American Accounting Association, American Tax Association; Education, B.B.A., University of Massachusetts, J.D., Boston College, L.L.M., Georgetown University.

39-707 O - 85 - 64

INTRODUCTION

The use of the employee fringe benefit is common practice in American business. The fringe benefit has been an important condition to businesses in attracting and retaining personnel. Indeed, there seems little argument that statutory fringe benefits, in the form of qualified pension plans, life, medical and disability insurance, provide a benefit not only to the recipient but to society in general.

However, minor fringe benefits, such as use of employer automobile and aircraft, represent a totally unique set of economic and sociological issues. The minor fringe benefit is provided in addition to monetary compensation and is usually directed to selected employees. Opponents to minor fringe benefit often cite its elitist connotations. Conversely, proponents argue that it is required to maintain performance, reward achievement and retain employees. In this sense, the fringe benefit serves as a means of providing motivation to aspiring employees in addition to differentiating the business organization from its competitors.

The arguments in support of or against minor fringe benefits notwithstanding, the major issue from a tax perspective is whether the fringe benefit is compensation and if so, what value or amount is includible in gross income of the recipient.

The taxation of minor or incidental fringe benefits continues to remain a controversial topic. Congress, Treasury Department, taxpayers and tax practitioners, all maintain divergent perceptions as to what constitutes a fringe benefit, and what, if any, amount should be included in gross income of the recipient of such benefit.

The objective of this paper is to discuss the recent developments surrounding the issue of the taxation of minor fringe benefits. In considering these recent developments, the judicial and statutory history of this subject will be discussed. Within this context, the recent legislation passed by Congress, the Tax Reform Act of 1984 (ACT), will be reviewed and the effect on some of the more common fringe benefits will be examined.

Recent Developments in the Taxation of Minor Fringe Benefits Current Status and Outlook

The recently passed Tax Reform Act of 1984 (ACT) is designed to increase federal revenues and help reduce the ever expanding budget deficit. The Act provides for numerous tax increases, the elimination of tax loopholes and new provisions to inspire taxpayer compliance.

One of the new provisions of the Act establishes statutory guidelines for determining the excludibility of certain minor fringe benefits from inclusion in the gross income of the recipient. These provisions are provided for in newly created Code Section 132, and amendments to Section 117 and, in the case of luxury automobiles used in a trade or business, Section 168.

The provisions of Code Section 132 have been premised on administrative, judicial and quasi-statutory concepts dating back to 1919. More recently, many of its theoretical and logical provisions are traceable to the Draft Regulations issued by the Treasury Department in 1975 and the Task Force Report of 1978. It seems that movement towards some type of statutory provisions have been delayed only by renewing the moratorium. In fact, the

original Senate companion of the Act incorporated a moratorium to December 1984. However, after intensive deliberation the House and Senate conferees agreed to many of the provisions of the House version and rejected a renewal of the moratorium.

Specifically, under the provisions of new Code Section 132, the value of the fringe benefit is excluded from the gross income of the recipient if it satisfies any one of four general statutorily prescribed criteria which include:

- o no additional-cost service;

  The value of the fringe benefit is not includible in the gross income of the recipient, if it is offered to the employee as a result of under utilization by or sales to the public. An example would be space available seats on a commercial airline.

- o qualified employee discount;

  Discounts on goods or services on items to employees working in the same line of business are not includible in the gross income of the recipient if such discount satisfies certain conditions.

- o working condition fringe; and

  Working condition fringe items are not includible in the gross income of the recipient if such fringe would be deductible by the employee under Sections 162 or 167.

- o de minimis fringe.

  The value of fringe benefits which are "so small" they make record keeping and accounting unreasonable are excludible from the gross income of the recipient.

The provisions of Code Section 132 are not retroactive and become effective January 1, 1985.

Under Section 532 of the Act, existing Code Section 117 is amended to provide for the exclusion from gross income of the recipient, the amount of tuition reductions or remission. The major stipulation is that the tuition reduction be available to employees of a qualified educational institution as defined under Section 170(b) on a non-discriminatory basis. Additionally, the tuition provision is not available for graduate level education. The provision takes effect July 1, 1984.

Another major change initiated by the Act affects the availability of ACRS deductions on luxury automobiles. Under its provisions, ACRS deductions are limited to $4,000 in the first year and $6,000 in each year thereafter. In addition, the ITC on luxury automobiles is now limited to $1,000. Thus, a cost threshold of $17,000 for a typical three year useful life is established. A major determinant to these provisions is the percentage of personal and business use. Under the Act, a 50 percent usage rate is established as the hurdle rate for determining the availability of ACRS and the ITC. Significantly, usage aggregating to less than 50 percent business use will disqualify the automobile from ACRS availability and the ITC. In this instance, straight line depreciation will be used.

The major advantage of these newly created provisions is the codification of statutory criteria for the excludibility of fringe benefits from the gross income of the recipient. Conversely, as with the majority of tax legislation, additional interpretative

and administrative issues will be created. The following sections of this article discuss many of these issues as related to their historical origins and newly created statutory framework.

General Description

Employee fringe benefits are provided by virtually every for-profit business in America. The structure and use of minor fringe benefits have become an important aspect and component of personnel policies. The availability and use of the fringe benefit satisfy a multitude of business, human and sociological needs. Typically, the fringe benefit is made available to an employee at the discretion of the employer. The fringe benefit is provided to employees in addition to monetary compensation and in recognition of a business requirement and achievement.

With the expansion of American industry and proliferation of labor unions and federally mandated provisions, the total value of employer supplements for these items increased from $0.7 billion in 1929 to almost $298 billion in 1982.[2] These costs equal 19.0 percent of wages and salaries for all industries.[3] Benefit payments to employees inclusive of those statutorily required, agreed upon, bonuses, profit sharing, and time not worked increased from $1.5 billion in 1929 to $510 billion in 1982.[4] Significantly, the 1982 payments represent 32.5 percent of total salary and wages paid in 1982. These amounts do not include minor fringe benefits such as those addressed by H.R. 4170 and this paper.[5]

[2]"Employee Benefits 1982," Chamber of Commerce of the United States, Washington, D.C. (1984) page 29.

[3]Ibid, page 29.

[4]Ibid, page 28.

[5]Ibid, page 28.

Generally, the fringe benefit is provided in a variety of forms which can be classified into the following three categories.[6]

[6]For a thorough discussion of each of these see Elwood, William E. and Gleicher, Warren R., 394 T.M., Employee Fringe Benefits.

1. Minor Benefits - These benefits include items such as use of employer owned transportation, i.e., automobiles and aircraft; employer reimbursement for employee educational expenses; and personal and recreational use of employer facilities.

2. Employer Subsidized Insurance - This benefit usually includes employer provided or subsidized insurance on the employee's life or health. It can also include some type of disability insurance.

3. Promise to Pay Cash or Provide Property - This benefit includes employee rights to future cash payments or property. Qualified pension and profit-sharing are the most common type of benefit in this category.

Within each of these classes, individual fringe benefits are either statutorily or non-statutorily excluded from income. For example, employer contributions to a qualified profit sharing or pension plan are exempted from being included in the recipient's

gross income under Code Section 401. Similarly, employer payments for employee health and accident insurance are not includible in gross income of the recipient under Code Section 106.

In contrast, non-statutorily defined benefit items provide a very fertile area for creative fringe benefit planning. These items generally include minor fringe benefit items such as:

1. use of a company automobile;
2. working environment or condition;
3. use of employer provided recreational facilities;
4. employer furnished personal security;
5. use of company aircraft;
6. employer provided parking;
7. employee discounts on employer products;
8. salesperson use of demonstrator automobiles;
9. tuition remission for employees of educational institutions;
10. employer subsidized eating facilities; and
11. low interest loans provided to an employee by an employer.

The latitude and discretionary nature of these items are, in part, responsible for the increase in legislative activity. This activity is clearly evidenced by the provisions incorporated into Code Section 132.

Issues

The major considerations surrounding the taxation of minor fringe benefits involve ten key issues.

1. Includibility in gross income of the recipient

Code Section 61 stipulates fifteen individual items which comprise gross income. However, the section also contains the phrase "not limited to." Similarly, under Regulations 1.61-2(d)(1), if property is received for services rendered, then the fair market value of the property is included in gross income. Therefore, the issue is whether the minor fringe benefit is a form of compensation.

In a similar sense, Code Section 83 provides that if property is tranferred to a recipient in connection with the performance of services, the gross income of the recipient includes the difference between the fair market value and cost basis of the item transferred. Again, the question arises as to whether compensation is involved.

2. Valuation

If the minor fringe benefit is deemed to be compensation, a second consideration is at what value or amount should the item be included in gross income. Valuation represents a significant issue in that alternative methods and amounts are available. The key issue is whether the valuation should be based on:

a. fair market value,

b. wholesale price,

c. manufacturer's suggested retail price,

d. employer's cost, or

e. value or worth to the employee.

3. Timing

Timing issues as to when the fringe benefit is to be included in gross income may present another issue. For example, should the value of the fringe benefit be included in income on receipt and use or when it is made available for use? When will it be deductible? Clearly, Code Section 451 type issues may be involved.

4. Deductibility

If includible in the gross income of the recipient, would the value of the minor fringe benefit be automatically deductible by the employer? An additional timing issue may be created under Code Section 461.

5. Tax equity

Would the inclusion and deductibility of certain minor fringe benefits create inequity among individual and corporate taxpayers? Could the taxation of certain minor fringe benefits create constitutional issues?

6. Administration

Could enforcement and compliance of the minor fringe benefit tax provisions be administered in a realistic and effective manner?

7. Precedence

Would enactment and enforcement of any minor fringe benefit tax provisions represent a departure from historical precedence or be inconsistent with policy?

8. Employer administration

Would enactment of minor fringe benefit tax provisions create additional and extraordinary costs to the employer? Conversely, to what extent would employees be held responsible for recordkeeping and administration?

9. Enforcement

To what extent would or could the Internal Revenue Service press for enforcement of includibility of all fringe benefit items in income, regardless of the de minimis exceptions?

10. Revenue effect

Would the enactment of provisions mandating the inclusion of minor fringe benefits in the gross income of the recipient generate incremental revenues in excess of direct and indirect costs of government administration? What would be the anticipated net revenue effect?

Judicial History

Historically, taxation of fringe benefits dates back to the very early days of federal tax law. In 1919, the Treasury Department issued, in O.D. 265, 1 C.B. 71 (1919), a ruling that the meals and lodging provided to seamen serving on ships were

not taxable to the recipient. In 1920, the Treasury Department ruled, in O.D. 514, 2 C.B. 90 (1920), that employees who performed additional work after regular business hours and received a cash payment for supper money were not considered to have received compensation as such payment was rendered for the convenience of the employer. Similarly, in O.D. 814, 4 C.B. 84 (1921), the Treasury Department ruled that food and lodging furnished to employees engaged in fishing and canning did not constitute taxable income to the recipient. Specifically, the Treasury Department concluded:

> "Where, from the location and nature of the work, it is necessary that employees engaged in fishing and canning be furnished with lodging and substenance by the employer, the value of such lodging and substenance may be considered as being furnished for the convenience of the employer and need not, therefore, be included in computing net income..."[7]

[7] O.D. 814,4 C.B. 84 (1921).

Hence, the doctrine of convenience of the employer was established by the Treasury Department during the period 1919 through 1921.

It was not until 1926 that this doctrine was judicially tested. In Jones v. United States, 1USTC 129, the Court of Claims ruled that quarters provided or payments for quarters made to an Army officer did not represent taxable income to the recipient. The Court premised its conclusion on the doctrine of convenience for the employer and the "business" necessity of providing such benefits for the performance of job related

responsibilities. Subsequent Tax Court rulings, Arthur Benaglia, 36 B.T.A. 838 and Van Rosen v. Commissioner, 17 T.C. 834 (1951), provided additional support for the convenience of the employer doctrine but they also incorporated in the doctrine the requirement that there be a business necessity for the benefit in order for it to be excluded from income.

In 1953, the Tax Court, in Doren v. Commissioner, 21 T.C. 374 (1953), considered the interrelationship between the convenience of employer doctrine and state tax laws. In Doren, the taxpayer was furnished with lodging by a state funded school. State law required that the value of the lodging be included in the recipient's income. Accordingly, the Court concluded that although clear necessity and convenience factors existed, the value of the lodging was includable in the gross income of the recipient because local state law required it for state tax purposes.

Statutory History

In 1950, the Treasury Department made an initial attempt to provide direction with respect to the taxation of fringe benefits by issuing Mimeograph 6472, 1950-1 C.B. 15. This mimeograph attempted to establish administrative parameters and criteria for evaluating the includibility of meal and lodging benefits in the gross income of the recipients. Specifically:

> "The 'convenience of the employer' rule is simply an administrative test to be applied only in cases in which the compensatory character of...benefits is not otherwise determinable. It follows that the rule should not be applied in any case in which it is evident from the other circumstances

involved that the receipt of quarters or meals by the employee represents compensation for services rendered."[8]

[8]Internal Revenue Service, Mimeograph 6472, 1950-1 C.B. 15.

Thus, the convenience of employer doctrine became a secondary consideration to the requirement of business necessity.

As a partial response to the 1950 Internal Revenue Service Mimeograph 6472, 1950-1 C.B. 15, Congress, in 1954, added Section 119 to the 1954 Code. Code Section 119 provides for certain exclusions from income, including fringe benefits in the form of meals. A major case in this area arose in 1977, R.J. Kowalski, 77-2 USTC 9748. Citing Senate Report Number 1622, 83d Cong., 2d Sess., 190 (1954), the Supreme Court in Kowalski concluded that employer cash payments for meals were not within the purview of Code Section 119 and were includible in income. The basic rationale for this conclusion lies in the language of Code Section 119 which covers meals furnished by the employer, not cash payments or reimbursements.

There was only limited legislative activity in the 1960's. Two Congressional reports: Senate Report Number 1518, 86th Cong., 2d Sess. (1960), and Senate Report Number 1881, 87th Cong., 2d Sess. (1962), were produced. However, neither of these reports altered the basic policy or treatment for the taxation of minor fringe benefits.

By the 1970's, employee fringe benefits had evolved to include more diverse and sophisticated items than the lodging and meal benefits of simpler times. In response to these changes,

the Treasury Department recognized the need for consistent statutory direction over minor fringe benefits.

Acting independently of the Internal Revenue Service, the Treasury Department issued proposed regulations in the September 5, 1975, issue of the Federal Register. In its news release dated September 2, 1975, the Treasury Department stated:

> "In general, the proposed regulations codify practices that have grown up over more than 60 years. Those practices and precedents constitute a practical interpretation of statutory language which is so elastic that it provides only general guidance."[9]

[9]Fringe Benefits, Notice of Publication of Discussion Draft Regulations.

In the same news release, the Treasury Department stated that the proposed regulations were in response to the need for clarification of statutory authority:

> "The Internal Revenue Code does not provide specific rules for determining which economic benefits provided to employees by their employers are required to be included in gross income."[10]

[10]Ibid.

The Draft Regulations provided a framework, consisting of three standards for determining the includibility of a fringe benefit in the gross income of the recipient. The key consideration was whether the fringe benefit represented compensation. The general rules included in the Draft Regulations provided:

"(1) Employees do not have taxable compensation where the benefit is on hand anyway, it costs nothing additional to provide it, and it is not limited to top executives."[11]

[11]First Discussion Draft.

Under the proposed regulations, failure of an item to qualify for the general rule above, could still qualify for favorable treatment under a second general rule which provided:

"(2) If a benefit does not qualify under (1), then its tax status is determined by looking at all of the facts and circumstances. Among the factors indicating whether or not a benefit is not taxable are:

- o Whether the employer incurs a substantial and identifiable cost.
- o Whether the expense is clearly related to the employer's business.
- o Whether the benefit is exact reimbursement of an unusually large personal expense incurred by the employee on account of the employer's business.
- o Whether the benefit is limited to top executives."[12]

[12]Ibid.

A third general rule provided for a de minimis exception where the fringe benefit item was so small as to make accounting and administration regarding such benefit impractical or unreasonable.

The proposed regulations represented a major departure from judicial and administrative precedence. In this respect, the proposed regulations were highly controversial and generally unpopular. Consequently, on December 17, 1976, the Treasury

Department formally withdrew them. In withdrawing the proposed regulations, then Secretary of the Treasury, William E. Simon, stated:

> "During the past 15 months, the discussion draft has been the subject of extensive comment. These comments have demonstrated the problems associated with establishing rules of general applicability with respect to fringe benefits. The myriad forms in which fringe benefits are provided and the difficulty of valuing those benefits, together with the undesirability of mandating the keeping of additional detailed records by employers and employees in certain cases, with the attendant costs and complexities involved, have caused me to conclude that the discussion draft should be withdrawn."[13]

[13]Fringe Benefits, Treasury News Release, "Fringe Benefit Taxation No Longer to be Considered." December, 1976.

In 1978, Congress initiated its first major attempt to provide a statutory framework for the taxation of minor fringe benefits. On June 22, 1978, the House Ways and Means Committee formed a task force to research, evaluate and formulate an approach to the fringe benefit taxation issue. Under the direction of Chairman J.J. Pickle, the Task Force held hearings which included the participation of Jerome Kurtz (then Commissioner of the Internal Revenue Service) and Donald Alexander (a former Commissioner of the Internal Revenue Service). The hearings and research resulted in a report and discussion draft submitted to the Chairman of the Ways and Means Committee, Al Ullman on February 15, 1979.[14]

[14]Second Discussion Draft of Fringe Benefit Regulations Sections 1.61-17 through 20.

Although the report and discussion draft did not provide specific tests for includability in gross income, it did provide a conceptual framework for determining the excludibility of fringe benefits from gross income. Specifically, this framework includes the following five criteria.[15]

[15]Ibid.

1. A General Guideline test which, if satisfied, provide for the exclusion of the value of the fringe benefit from the recipient's gross income. The guidelines set out three general standards:
   a. that the benefit is made available to all employees or to a "reasonable classification" of employees;
   b. that providing the fringe benefit to the employee does not cause the employer to incur a substantial incremental cost; and
   c. that aggregate value of all fringe benefits received by an employee does not, on a comparative basis, equal the employee's monetary compensation.
2. A Convenience of Employer test, which provides for the exclusion of the value of the fringe benefit if it is provided in support of the employee's performance of services.
3. A De Minimis test, which excludes small amounts of fringe benefits from income.

4. A Statutory Exceptions test, which would be used to exclude all items specifically afforded statutory exception.

5. A Treasury Regulation test, which simply provides the Treasury Department authority to establish regulations which would provide for the exclusion of fringe benefit items.

Despite this concerted effort, no Congressional action was taken and the Task Force Report and Discussion Draft faded from Congressional view. This de-emphasis may have been, in part, attributed to the October 7, 1978, enactment of Public Law 95-427 which imposed a moratorium on the issuance of any new regulations prior to January 1, 1980.

The passage of Public Law 95-427 initiated a series of extensions for the moratorium on the issuance of new regulations. On December 29, 1979, with the passage of Public Law 96-16, Congress extended this moratorium to July 1, 1981. The Economic Recovery Tax Act of 1981, passed on August 13, 1981, extended the moratorium to December 31, 1983. The Senate Finance Committee has currently approved legislation which would further extend the moratorium to December 31, 1985.

Despite the successive extensions of the moratorium, the Treasury Department, in January 1981, issued another draft of Proposed Regulations. As with the 1975 version, this second set of proposed regulations were issued as a discussion draft. They were not, however, promulgated in the Federal Register. The most significant change in the interpretation of the Code which the

Proposed Regulations presented was the fact that the value of fringe benefits, subject to certain criteria and exclusions, would be included in the gross income of the recipient. Specifically, under Proposed Regulations Section 1.61-17(a), the general rule provides:

> "If, in connection with the performance of services, a person (or beneficiary thereof) either obtains or uses any property, service or facility, the value of such item (as determined under Section 1.61-20) shall be included in that person's gross income..."[16]

[16]Second Discussion Draft, Proposed Regulations Section 1.61-17(a).

The exceptions to the above general rule include:

1. an item of working condition; and
2. an item of administrative convenience.[17]

[17]Ibid.

Under the Proposed Regulations, an item of working condition is defined in Section 1.61-18 as a "working condition provided at the recipient's place of employment for use during normal working hours."[18] If, for instance, a working condition was used for a non-business purpose, the recipient would be required to allocate the value of the condition between business and non-business use. To this extent, the non-business valuation would be includible as income.[19] In Proposed Regulations Section 1.61-19(a), as a matter of administrative convenience, the value of property or services received in the form of a fringe benefit may be excluded from the recipient's income. In this situation, the facts, circumstances

and valuation of each fringe benefit would be a factor in determining its inclusion in or exclusion from gross income.

[18] Ibid., Proposed Regulations §1.61-18(a).

[19] Ibid., Proposed Regulations §1.61-18(b).

On July 12, 1983, Representatives Stark (Democrate-California) and Conable (Republican-New York) introduced H.R. 3525. Entitled the "Permanent Tax Treatment of Fringe Benefits Act of 1983," this proposed legislation provides for very comprehensive tax treatment of fringe benefits. In particular, H.R. 3525 mandates the inclusion of fringe benefit values in the gross income of a recipient. However, a fringe benefit will be excluded if it meets one of the four following criteria:

1. it is provided at no additional cost to the employer;
2. it is a qualified employee discount;
3. it is a working condition fringe; or
4. it is a de minimis fringe benefit.[20]

[20] H.R. 352A, Section 132(a).

A bill similar to H.R. 3525 was presented in the Senate in 1983. However, neither bill was acted upon during the 1983 session.

The "Tax Reform Act of 1984" is essentially the same as its 1983 predecessor, H.R. 3525, with respect to fringe benefits. Under new Internal Revenue Code Section 132 the value of a significant number of fringe benefits would be included in the gross income of the recipient. However, Code Section 132 would provide general rules for exclusions from inclusion in income.

In summarizing the rationale for incorporating the provisions of Section 132 into the Code, the Committee on Ways and Means concluded that statutory direction was required.

> "Because of the moratorium on the issuance of fringe benefit regulations, the Treasury Department has been precluded from clarifying the tax treatment of many forms of non cash compensation commonly in use. As a result, the administrators of the tax law have not had clear guidelines in this area, and hence taxpayers in identical situations have been treated differently."
>
> In summary, the Committee believes that by providing rules which essentially codify many present practices under which employers provide their own products and services tax-free to a broad group of employees, and by ending the uncertainties arising from a moratorium on the Treasury Department's ability to clarify the tax treatment of these benefits, the bill substantially improves the equity and administration of the tax system."[21]

[21] "Tax Reform Act of 1984, Supplemental Report of the Committee on Ways and Means U.S. House of Representatives on H.R. 4170," Prentice Hall (March 9, 1984) pages 1591 and 1592.

Under the provisions of Code Section 132, a fringe benefit would not be included in the gross income of a recipient if it meets one of four criteria. These criteria, which parallel the 1983 legislation, H.R. 3525, include the following.

1. No additional-cost service - Under this criteria, a fringe benefit would be excluded from income if (a) the employer incurred no substantial additional cost, and (b) the item is provided to customers in the ordinary course of business of the employer. It is significant that the exclusion must be available in a non-discriminatory fashion. That is, it must be available to all employees.
2. Qualified employee discount - This provision limits discounts for employer services to 20 percent and limits employee discounts on merchandise to a computed percentage of the gross profit percentage.
3. Working condition fringe benefit - Is a typical cost which is deductible by the employer under Code Sections 162 or 167. If deductible, then an exclusion is allowed.
4. De minimis fringe benefit - This exclusion would be available if the amount of the fringe benefit is immaterial and the administration and accounting for it would be unreasonable, unrealistic or impractical.

Enactment of Section 132 provides statutory direction for a wide variety of minor fringe benefit items. The most significant attribute of this legislation is the establishment of nondiscriminatory provisions for certain fringe benefits. In addition, Section 132 radically affects such traditional benefits as, employee discounts, use of employer products for testing purposes, employer paid parking and interest free loans to employees. The effect of Code Section 132 on these items and other commonly used fringe benefits is described in Exhibit I below.

EXHIBIT I

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
1. Use of Company Automobile	Generally not includible in the gross income of the recipient if recipient's personal use of the automobile is limited to incidental use. A deduction in the form of depreciation and operating cost is usually available to the employer as well as the investment tax credit.	No change.	The key concern is measuring, with any degree of accuracy, the use of the employer's car for personal purposes. Secondly, a method for clearly identifying incidental and more-than-incidental use will have to be established. More significantly, the criteria for defining incidental use will be required. Another issue involves the characterization of income to the recipient. If personal use is considered to be more than incidental, income is characterized as ordinary or as a constructive dividend. (See Whipple Chrysler - Plymouth v. Commr. 31 T.C.M. 230 (1965).) If characterized as ordinary income, the value of the excessive incidental use is deductible to the employer under Section 162. However, if characterized as a dividend, no employer deduction is allowed.
2. Working Environment Office and Job Site	Generally not included in the gross income of the recipient user. Deductions in the form of depreciation and expenses are available to the employer. In addition, the investment tax credit is also available on qualified items.	Under new Code Section 132(d), if the costs incurred for the property or services are deductible by the employee under Code Sections 162 and 167, the fair market value of the property or service provided to the recipient is excludible from gross income. Non-discrimination rules are not applicable. Specific examples of excludible items: • Employer expenditures for on-the-job training; • Employer expenditures for safety including the use of personal bodyguards;	The major consideration is whether the cost of the office or job site environment is unreasonable relative to similar businesses and the concept of business necessity. If deemed unreasonable, the deduction attributed to cost may be disallowed in part or in total. Other considerations in determining deductibility include: • Nature of item; • Purpose of item and relationship to business; and • Type of ownership of corporation: - publically held, - S corporation, - owner/employee, or - closely held.

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
2. continued from previous page		• Employee use of employer provided consumer products for testing purposes only if: - testing of the product is an ordinary and necessary business expense of the employer, - off-site testing is justified by business reasons, - the item is furnished specifically for testing, - the employee is allowed access to the item for a period confined to testing and is returned to the employer thereafter, - the employer restricts the use of the item to the employee which reduces limits of any personal benefits to the employee, - the employee submits a detailed report and evaluation to the employer. • Chauffered limousines for transporting executive personnel from their place of business to off-site appointments; • Office furnishings and supplies, equipment, etc. • Taxi-fares provided to employees working late.	

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFITS	FORMER LAW	NEW TREATMENT	COMMENTS
3. Recreational Facilities	Generally, not included in the gross income of recipient. This is premised on the condition that the facility is substantially for the use of all employees, spouses and children. Deduction for operating expenses and depreciation are available. In addition, the investment credit is available.	The fair market value of on-premises recreational facilities is excluded from the gross income of the employee under new Code Section 132(h)(5). The recreational facility must be operated by the employer for its employees and must be substantially dedicated for use as a recreational facility. Note that this provision requires that the facility be located on the premises of the employer. This does not require location on business premises. The facility may not be a residential unit. Examples include: • Swimming pool; • Tennis courts; • Golf courses; and • Gymnasiums. Significantly, the provisions do not apply to: • Country club membership; and • Similar social clubs. The fair market value of these are includible in the gross income of the recipient. A corresponding deduction is allowed subject to Sections 167 and 274. Note, see Section 274 for non-discrimination provisions.	The key consideration regarding this provision is the stipulation that the facility must be located on employer premises. This does not mean that the facility needs to be located on the business premises of the employer. The term premises may require clarification for some practitioners. Accordingly, some type of definition may be necessary.
4. Personal Security	Generally not included in the gross income of the recipient. Expenses incurred by the employer are usually deductible.	No change.	The Act considers the assignment of a bodyguard for personal protection to be within the definition of a working environment fringe benefit. As such, a deduction would be available to the employer without a corresponding inclusion to the recipient.

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
5. Use of Employer's Aircraft	Generally, use of the company aircraft in the performance of company business does not result in income to the recipient. Operating expenses and depreciation deductions are available to employer. Investment tax credit is also available to employer.	No change.	Although conceptually similar to the use of a company automobile, employee use of an employer aircraft represents unique issues. The most significant of which is the substantial expense associated with maintenance and operation of the aircraft. A second consideration is that unlike automobiles, personal acquaintances of the primary business user, such as spouses, friends, children, often accompany the employee on the aircraft. The question then becomes whether the fair market value represents income to the accompanying passenger or the sponsoring employee. There is both limited authority and case law on this topic. In 1974, a Joint Committee of Congress examined and issued the use of government aircraft by the family and friends of President Nixon. The Joint Committee concluded that when members of the President's party traveled in an other than official capacity, income was created for the President. However, the Joint Committee also determined that a restoration of income for tax purposes was not required.
6. Employer Provided Parking	Generally, the cost of parking is deductible to the employer and the value is non-includible to the recipient's gross income.	No change.	No change.

"Personal Use of Government Aircraft by the President's Family and Friends," S. Rep. No. 93-768, 93rd. Cong. 2d. Sess., (April 3, 1974).

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
7. Employer Discounts or Bargain Sales to Employees	In general, the discount is not includible, either as ordinary or a constructive dividend income, to the recipient. No corresponding deduction is available.	New Code Section (132)(c) substantially changes the tax treatment of employee discounts. The most significant change is the establishment of a limitation on the maximum rate of discount. Specifically, under Code Section 132(c), an exclusion for certain employee discounts would be allowed only if the discount was available to all employees on a non-discriminatory basis. In addition, the exclusion would apply to direct discounts from the selling price or cash rebates. The exclusion would not apply to items of real property or investment property. The major criteria for qualification include: • the goods and services subject to the discount must be those which are offered for sale by the employer to non-employee customers; • the goods and services subject to the discount must be the same as those sold in the ordinary course of business; • the goods and services subject to the discount must be within the employer's line of business in which the employee works; note a grandfather rule exists extending back to October 5, 1983 which provides relief to this provision; • the discount limitation is calculated separately for services and merchandise:	This provision presents several items of potential concern. First, the administration of this provision would be difficult. Secondly, it seems plausible to expect that many of these discounts will fall within the de minimis provisions. Note that the selling price referred to in Section 132(c)(2)(B) is defined as the same price as offered by the employer to non-employee customers. The Committee Report on the Act provides that the fair market value of the discounted products or services "is to be measured by reference to the regularly discounted group selling price." This may create difficulty in computing the selling price where multiple product lines and discounts are involved.

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
7. continued from previous page		MERCHANDISE: The discount is limited to the selling price times the employees gross profit percentage. The gross profit percentage is defined as the excess of the aggregate sales price over the aggregate cost of the merchandise divided by the aggregate sales price. See Code Section 132(c)(2)(A). SERVICES: The discount is limited to 20 percent of the selling price of services. Gross profit percent is not considered. See Code Section 132(c)(1)(B).	
8. Demonstrator Automobiles	Generally, the value of the auto's use pass is not included in the income of the recipient. Operating expenses are available to employer. In certain situations, depreciation and the investment tax credit may be available.	Code Section 132(h)(3) stipulates that the use of a demonstration automobile by a salesperson would be excluded from income only if: • there were substantial restrictions placed on the personal use of the automobile by the salesperson; • the automobile is provided primarily for the employee in performance of service for the employer. • the automobile salesperson must be a full-time salesperson.	

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
9. Tuition Remission Plans	Scholarships and grants are generally not included in gross income of recipient under Section 117. Tuition remission is includible.	Section 532 of the Act provides for a new provision to amend Code Section 117. This provision would provide an exclusion for qualified tuition reductions from the gross income of employees of an educational institution. See Code Section 170(b)(1)(A)(ii) for definition of educational institution. Under the amendment, an exclusion is allowed only if it was made available on a non-discriminatory basis to all employees. The exclusion is available for tuition remission for elementary, secondary or undergraduate schools. The exclusion does not apply to graduate level courses. Under the provisions three classes of employee would qualify for the exclusion: • Current employee; • Separated from service employee provided said separation was attributed to retirement or disability; and • Surviving spouse of an employee who died while in service to an educational institution. See Code Section (132(f).	Should benefit employees of all institutions who have a tuition remission program.
10. Subsidized Eating Facilities	Generally not includible in the gross income of the recipient under Code Section 119. Operating costs, depreciation and investment tax credit are available to employer.	Under Code Section 132(e)(2), if an employee dining facility is located on or near the employer's business premises and the revenue generated from operation of the facility exceeds the direct operating costs, an exclusion from income is provided.	This is a good example of the de minimis provisions. The Committee Report concluded that the accounting for any excess revenues would be unreasonable.

ANALYSIS OF THE TAX REFORM ACT OF 1984
ON CERTAIN FRINGE BENEFITS

	FRINGE BENEFIT	FORMER LAW	NEW TREATMENT	COMMENTS
11.	Luxury Automobiles	Generally, not includible in gross income of recipient.	Under the Act, ACRS deductions are limited to $16,000 for the first 3 years ($4,000, $6,000, $6,000). Thereafter, the maximum amount of depreciation available in each year is limited to $6,000. In addition, a $1,000 limitation for investment tax credit purposes is imposed. Significantly, these limits would also be reduced for proportionate business and personal use. Additionally, if personal use exceeds 50 percent of total usage, the taxpayer could not utilize the investment tax credit or ACRS provisions and must use 5 year straight line depreciation.	This provision effectively creates a hurdle cost of a new car to $17,000 for 3 year recovery. In addition, the provision establishes new criteria for determining business use. These criteria disallow commutation mileage and require taxpayers to keep a log detailing mileage and use. Most importantly, tax preparers are required to inform clients of the log maintenance requirements, and taxpayers are required to formally notify the tax preparer of the log.

Missouri Bankers Association
Voluntary Employees Beneficiary Association

1022 Northeast Drive Jefferson City, Mo. 65101 Phone: (314) 635-9176

August 10, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Building
Washington, D. C. 20510

RE: Finance Subcommittee on Taxation
and Debt Management - Fringe Benefits -
Hearing Dates - July 26, 27 and 30, 1984

Dear Mr. DeArment:

The purpose of this letter and the attached statement is to provide your subcommittee with the views of our organization concerning proposed employee benefit tax legislation.

The comments outlined on the statement are those of the Missouri Bankers Association Voluntary Employee's Beneficiary Association. Our office administers the MBA/VEBA program for some 236 banks in the State of Missouri insuring 4,770 employees. The MBA/VEBA program includes a variety of employee benefits such as medical, dental, disability and life insurance.

Thank you for your consideration.

Sincerely,

Marla Cline

Marla Cline
Administrator

MC:rc

Attachment

cc: The Honorable John C. Danforth
Mr. Bill C. Lee, Chairman, MBA/VEBA Trust

Missouri Bankers Association

Voluntary Employees Beneficiary Association

1022 Northeast Drive Jefferson City, Mo. 65101 Phone: (314) 635-9176

STATEMENT

RE: Finance Subcommittee on Taxation
and Debt Management - Fringe Benefits -
Hearing Dates - July 26, 27 and 30, 1984

- Employee benefit plans, such as ours, provide the most efficient and cost effective way to insure an employee economic security. Effective management of our funds and plan designs have made our program very successful. The employees of our member banks have benefited from these management practices.
- The benefits offered by MBA/VEBA benefit employees at all wage levels, not just key employees.
- The preferential tax treatment of our program has encouraged growth of the MBA/VEBA. Should this tax treatment cease, additional strain would most certainly be placed on public programs of all types. We do not believe this is the result your committee desires.

In summary, we feel tax policy should continue to encourage employee benefit programs such as ours, not to look upon them as an untapped source of revenue. The long-term effect of restricting tax policy would most certainly be disastrous.

8/10/84

Mississippi Conference Group Insurance
The United Methodist Church
POST OFFICE BOX 266
ELLISVILLE, MISSISSIPPI 39437

W. H. WICKER
ADMINISTRATOR
(601) 477-9233

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee On Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Re: Taxation of Employee Benefit

Hearing July 26, 27, and 30, 1984

There are 491 ministers (employees) and staff insured in the Health plan through our Conference, The Mississippi Conference of The United Methodist Church. The plan is so designed that all active eligible people in the Association share the same health benefits. All the retired people share the same health benefits. The plan is the same, whether male or female.

Those who elect may insure their dependents. These benefits for dependents under age 65 are the same benefits as for the active minister (employee). The benefits for the dependents age 65 and over is the same as for the retired minister (employee).

These benefits are an essential aspect of the economic security of everyone in our association. We feel comfortable in knowing that we will not face a complete financial collapse when illness comes our way, or to one of our dependents. By and large, the salary of the average minister is less than that of other people with the same degree of education. If the benefit becomes taxable, the spendable income of the minister would be greatly deminished.

We feel that private enterprise has built an effective and efficient arrangement covering the needs of our people, through the employee benefit system. It is our feeling that the private enterprise can continue to render a very valuable service, perhaps in a far greater way than could a government program.

On behalf of the 491 employees in the association, I strongly feel that the health benefit through the private enterprise is essential and should continue to be a tax-free benefit to the minister (employee) and the dependents.

Sincerely,

Bill Wicker

W. H. Wicker

cc W. D. Blalock
Executive Committee,
Group Insurance

STATEMENT FOR THE RECORD
BY
A. A. WEISKOPF, EXECUTIVE VICE PRESIDENT
MOBILE AREA CHAMBER OF COMMERCE
REGARDING
TAXATION OF EMPLOYEE BENEFITS
PUBLIC HEARING
JULY 30, 1984

We appreciate the opportunity to submit for the record a statement regarding the positive effects of employee benefits. Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must; and we believe the ultimate price to our nation will be greater.

The employee benefit program of the Mobile Area Chamber of Commerce accrues to the benefit of each employee of the organization. The benefits do not accrue primarily to those in a higher income bracket, nor do they accrue only to a given gender or ethnic background.

The benefit program of our organization is an essential economic factor for the security of current employees, retirees and their dependents. The absence of employer-sponsored benefits would cause hardship for our employees.

We sincerely hope that the efforts of the Senate Committee on Finance in developing a full hearing record will not result

in a diminishing of the employer/employee benefit system. As stated earlier, the employee's needs are constant and must be met. We, in the private sector, are willing to meet these needs, however, as mentioned above, if we are discouraged we believe the ultimate price of government fulfilling these needs will be greater.

We appreciate this opportunity to present these comments.

A. A. Weiskopf, CCE
Executive Vice President
Mobile Area Chamber of Commerce

MONARCH LIFE INSURANCE COMPANY
1250 STATE STREET, SPRINGFIELD, MASSACHUSETTS 01133
(413) 785-5811

August 10, 1984

Mr. Roderick A. De Arment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

RE: Finance Sub-Committee on Taxation and Debt Management Hearings on Fringe Benefits, Scheduled for July 26, 27, & 30.

I am writing this letter on behalf of Monarch Capital Corporation, a holding Company whose subsidiaries are engaged in the Financial Services Industry and Real Estate. I am requesting that this letter be included in the record of the hearing on Fringe Benefits. I am Vice President, General Counsel, and Secretary of the Corporation of two of the life insurance subsidiaries of Monarch Capital Corporation, namely Monarch Life Insurance Company and Springfield Life Insurance Company Corporated.

The purpose of this letter is to advise you of the Fringe Benefit Plans which Monarch Capital Corporation has made available to all of its employees, some on a contributory and some on a non-contributory basis. These Fringe Benefit Plans are as follows:

1. Basic Group Life Insurance. Equal to 1-1/2 times salary in the previous calendar year; accidental death benefit equal to life insurance but not in excess of $100,000; dependent life insurance on spouse and children; and $2,500 benefit after retirement. All benefits are non-contributory.

2. Supplementary Group Life Insurance. Employees are able to purchase at term rates up to 4 times their previous years salary and in the initial year of employment up to 4 times salary.

3. Basic Group Health Insurance Program. This is a contributory plan providing basic hospital and major medical benefits. Total limit of $1,000,000. Premiums depend upon family status, that is single or married.

4. Dental Insurance. A contributory program. Premiums depend upon family status. Available after one year of employment.

5. Long-Term Disability Benefit. This is employee paid, and benefits depend on length of employment and salary. Available after one year of employment.

6. Thrift Plan. This is a 401K Plan. Employees may contribute up to 4% of their salary and the Company matches that contribution up to $ .50 per dollar. There may be a higher matching contribution depending upon company earnings in the previous year. Contributions may be made of more than 4% of salary but they are not matched by employer. Employees may join this plan on the July 1st or January 1st following one year of employment.

7. Retirement Plan. This is wholly Company paid. Benefits are based on length of service and compensation.

8. Employee Stock Purchase Plan. Stock is purchased by the Company and each employee with 3 years of service will be credited in 1984 and 1985 with stock equal to 1/2 in 1984 and 1985 of 1% of the employee's annual salary.

9. In addition to the foregoing, there are other Fringe Benefits such as paid vacations, 10 paid holidays, sick pay plans, personal time allowance of 3 days per year for other than exempt employees, an anniversary bonus of $25 for each year of employment paid every 5 years, and a medical leave of absence policy.

It should be noted that all of the Fringe Benefit Plans are available equally to all employees regardless of age, sex, or salary. The Pension Plan does adjust to inflation and in addition retirement income is based on salary and on length of employment not on sex.

It is the opinion of my employer that fringe benefits are essential to the physical, emotional, & economic well being of each employee. Without employer sponsored Fringe Benefit Plans, whether they be contributory or non-contributory, employees would be left to their own devices in planning for their futures, for their own medical care, and all of the other types of benefits that the fringes provide for. In most cases employees could not purchase on their own benefits that can be provided through Fringe Benefit Plans.

Employees looking for positions with companies will often look for those companies which provide in addition to a reasonable salary the best Fringe Benefit Plan. In some instances they may take a position which has a lower salary if the Fringe Benefit Plan is better. This indicates the importance of fringe benefits to employees, and also to the American businessman. Fringe Benefit Plans are devised to be fair to employees and employers and to attract those employees who will benefit their employer as well as themselves.

As indicated, private enterprise has built an effective and efficient arrangement covering the needs of its employees through its Fringe Benefit Plans. It is far superior to any government program which might be devised to replace it, and should not be dismantled in the name of greater tax revenues. I believe that the price our nation would have to pay for Fringe Benefits provided by government would be higher than the current costs of programs provided by our nation's employers.

Attached is a list of the benefits available to <u>all</u> employees.

Very truly yours,

Raymond A. Rivera
Vice President
General Counsel
Secretary

RAT:lal

Attachment

A. Benefits available immediately upon employment:

Basic Group Life & Health Insurance
Supplemental Group Life
Voluntary Group Accident Insurance
Credit Union - savings only
Paid holidays
Medical services
Salary on direct deposit - if elected
Subsidized bus pass
Home and auto insurance under payroll deductions
Full salary while on jury duty
1250 Store and Club
Emergency leave
Employee Assistance Program
Home Office sponsored insurance courses
Cafeteria
Parking facilities

B. Benefits available after six months of employment:

Personal time - non-exempt employees
Paid sick leave
Paid vacation time
Educational Payment Program
Apply for Job Posted positions or request transfer
Apply for leave of absence
Fitness Center using specified company time
Salary review (end of probationary period) if agreed upon at time of hire

C. Benefits available after one year of employment:

401(K) Thrift Plan - January 1 or July 1 nearest one year of service
Retirement Plan plus 25 years of age - eligible January 1 or July 1 after eligibility requirements are met

Long term disability - January 1 nearest 2nd anniversary
Dental Plan
Credit Union - personal loan
Stock Purchase Plan

D. Benefits available after two years of employment:

Credit Union - auto loan

E. Benefits available after three years of employment:

Employee Stock Ownership Plan

August 9, 1984

Mr. Roderick A. De Arment
Chief Council Committee on Finance
Room S D - 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. De Arment:

I would like to present this submission in regards to "Employee Fringe Benefits". I am presently covered by the Wisconsin Carpenters Pension Plan and the Wisconsin Carpenters Health Plan.

I believe that our Health Plan provides me with very good Health Insurance and because we have a large statewide group of participants, we receive this coverage at a very reasonable contribution rate which is both beneficial to the participant whom, if he has to make a self payment for insurance,(He has run out of his bank of extended hour coverage) the rate is very affordable. And secondly, the contribution rate for the employer is fair and reasonable because they only contribute on the employees in their employ and only on actual hours worked. They also contribute on a rate per hour as established by a equal number of Labor and Management Trustees. And that rate is also very reasonable because of the large group size.

Economically, I feel that if a major medical claim strikes my family I will not be strapped with depleeting my savings and or applying for a loan to pay the bills.

My family of four receives the same coverage and service from our self-administered fund as any other participant, be it a household of one or a household of twenty. We also have a life policy in our plan which covers some of the family expenses in the event of my death.

I feel that our Pension Plan is second to none, and I have a very good idea as to what will be awaiting me or my family financially upon my retirement or death. All members and/or families of participants will receive all monies contributed on their behalf plus interest.

If the pension or welfare monies were not tax exempt and this money was added to my check and taxed to purchase a Health Plan and a Pension Plan for myself and family, I'm sure that I could not purchace the equivilant of one half of either present plan. I don't believe that I or many of the other participants would have such fine plans if it were not for the employer and union providing these benefits.

Sincerely,

James E. Moore

JM/dj

James E. Moore
2409 Erie Rd.
Green Bay, WI 54301

James A. Attwood
Chairman
Chief Executive Officer

The Mutual Life Insurance Company of New York
1740 Broadway
New York, New York 10019
212 708-2995

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Senate Finance Subcommittee on Taxation and Debt Management - Hearings on Fringe Benefits (July 26, 27, and 30, 1984)

Dear Mr. DeArment:

As Chairman and Chief Executive Officer of The Mutual Life Insurance Company of New York, MONY, I am writing to urge the Subcommittee to recognize and preserve the existing taxation structure for employee benefits. This structure has enabled the private sector of American industry to underwrite a cost effective and efficient comprehensive system of retirement, health care, disability, life insurance and other benefits meeting the needs of American employees in a manner unparalleled in size, scope and benefit level.

In accordance with Senator Packwood's request, we in the life and health insurance industry have consolidated much of the substantive aspects of our testimony by designating our trade association representatives, The American Council of Life Insurance and The Health Insurance Association of America, to represent our industry's viewpoint and to respond to the specific areas of concern noted in your Subcommittee's release of June 4, 1984. I am informed that your Subcommittee has now received the benefit of our perspective in this regard.

In addition, I have enclosed for the Subcommittee's consideration a summarization of our employee benefits structure here at MONY. The data provided in this enclosure readily demonstrate that our employee benefits structure is non-discriminatory in its application. Our plans are not restricted in any sense to the more highly compensated, nor are their benefits structured so as to provide men and women with disparate retirement, health care and life insurance packages.

Moreover, as an insurer, MONY provides similar non-discriminatory employee benefit plan coverage for employer clients representing thousands of employees and their beneficiaries. Based on my long experience and familiarity with the full range of employee benefit plans in the course of my employment in an industry which designs and underwrites such plans as its principal business purpose, I can assure you that MONY's experience as an employer and as an insurer in this regard is common to American industry in general.

In closing I would like to respectfully submit that the existing private enterprise sponsored, funded and administered employee benefit system, encouraged by the heretofore judicious use of specific, targeted and sensible tax incentives, has produced a system far superior and at less cost to the taxpayer than could be duplicated by the government replacement mechanisms which would be required to continue the safety net of economic security our Nation must provide to its working populace. We must not allow the lure of short term tax revenues to tempt us into destructive action to dismantle the existing system so absolutely essential to the economic security of American workers, retirees and their dependants..

Thank you for your consideration of our viewpoint. If we here at MONY can provide you with any further information which will benefit the Senator and the Subcommittee in its review of these critical issues please do not hesitate to call on us at any time.

Very truly yours,

James A. Attwood

Company Name (Optional) _____

☒ All Employees # 5,197 (12/31/83)
☐ Salaried Only #_____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	$41,953,141	$8,072.57
Legally-Required Employer Payments	8,577,206	1,650.41
Social Security [b]	6,927,393	1,332.96
Unemployment Compensation	1,253,646	241.22
Workers' Compensation	333,069	64.09
Other Payments	63,098	12.14
Discretionary Taxable Benefits	11,923,791	2,294.36
Time Not Worked	11,762,518	2,263.33
Rest Periods	5,358	1.07
Other Taxable Benefits	155,715	29.96
	21,452,144	4,127.79
Discretionary Tax-Favored Benefits	____	____
Defined Benefit Pension Plans	9,578,247	1,843.01
Capital Accumulation Plans	1,766,346	339.88
Disability Plans	1,931,323	371.62
Group Health and Life Insurance	5,410,401	1,041.06
Active Workers	NA	NA
Retirees	NA	NA
Other Tax-Favored Benefits	2,765,827	532.20

Company Name (Optional) _____

☒ All Employees # 5,197 (12/31/83)
☐ Salaried Only #_____

TABLE 2

EMPLOYEE BENEFITS PERCENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries	Employer Payments as Percent of all Benefits
Total Benefits	35.80%	100.00%
Legally-Required Employer Payments	7.32	20.44
Social Security	5.91	16.51
Unemployment Compensation	1.07	2.99
Workers' Compensation	.28	.79
Other Payments	.05	.15
Discretionary Taxable Benefits	10.18	28.42
Time Not Worked	10.04	28.04
Rest Periods	-	.01
Other Taxable Benefits	.13	.37
Discretionary Tax-Favored Benefits	18.31	51.13
Defined Benefit Pension Plans	8.17	22.83
Capital Accumulation Plans	1.51	4.21
Disability Plans	1.65	4.60
Group Health and Life Insurance	4.62	12.90
Active Workers	NA	NA
Retirees	NA	NA
Other Tax-Favored Benefits	2.36	6.59

Company Name (Optional) _____

☒ All Employees # 5,197 (12/31/83)
☐ Salaried Only # _____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 1984 (Current Date)

	Defined Benefit				Employer Capital Accumulation				401(k)			
	Participate		Vested (a)		Participate		Vested (b)		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	257	6.74	21	1.38	103	4.38	100	4.75	NO PLAN			
10,000- 19,999	1,630	42.73	451	29.73	830	35.27	687	32.64				
20,000- 49,999	1,546	40.52	799	52.67	1,090	46.32	990	47.03				
50,000- 99,999	269	7.05	152	10.02	225	9.56	223	10.59				
100,000 or more	113	2.96	94	6.20	105	4.46	105	4.99				
Total	3,815	100%	1,517	100%	2,353	100%	2,105	100%		100%		100%

(a) Approximate based on 10 Years of Service
(b) Those with at least 1 class year contributions fully vested.

Company Name (Optional) _____

All Employees # 5,197 (12/31/83)
Salaried Only # _____

TABLE 4

HEALTH BENEFIT AVAILABILITY, 19 84 (Current Date)

	Group Insurance		125 Plan		IRAs	
	#	%	#	%	#	%
$0-$ 9,999	143	3.76	(NO PLAN)		48	7.07
10,000- 19,999	1,879	49.37			385	56.70
20,000- 49,999	1,399	36.76			243	35.79
50,000- 99,999	271	7.12			3	.44
100,000 or more	114	3.00			0	0
Total	3,806	100%		100%	679	100%

Company Name (Optional) _____ ☒ All Employees # 5,197 (12/31/83)
☐ Salaried Only # _____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# 1,337 (a)	$ 6,271,463 (a)	1983
Defined Benefit Plan Retirees Survivors in Pay Status	# 67	$ 176,936	1983
Defined Benefit Plan Vested Separated	# 696	N/A	1983
Capital Accumulation Plan Retirement Age Distributions	# NA	$ NA	19__
Capital Accumulation Plan Termination Distributions	# NA	$ NA	19__
Retiree Health	# 397	$ 850,000	1983
Retiree Life	# 928	$ 460,708	1983
Retiree Other (Spouse's Benefit)	# 627	$ 271,826	1983

(a) Includes those retired for disability.

SUBMITTED AS PART OF THE RECORD OF THE HEARING
ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27, AND 30
BY THE UNITED STATES FINANCE COMMITTEE, SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT

By E. Lee Morris, III

Apparently a number of Congressmen feel that the private employee benefit plan system does not deserve the tax incentives which currently support that system. This statement is being submitted by a certified public accountant and tax lawyer who has practiced extensively in the field of private employee benefit plans for many years.

While it is true that many small businesses and professional corporations adopt qualified retirement plans because of the tax incentives and for the benefit derived from such plans by the owners and highly paid decision makers, it is also true that a good number of socially and economically useful purposes are served, including:

(1) Alleviation of pressure on the Social Security System and other government support programs. I have seen in my practice a number of occasions when a non-highly paid employee has only social security and his private retirement plan benefits to fall back on at retirement, not having built up otherwise a personal estate. With life expectancies continually rising, with standards of living continually rising, and with costs of living continually rising, individuals would put more and more political

39-707 O - 85 - 67

pressure on the government for retirement programs, if the private sector support were to be eliminated.

(2) A heightened awareness on the part of individuals at earlier ages, of the need to plan for retirement. In my practice, I have seen hundreds of examples giving rise to my firm belief that the existence of employer-sponsored qualified retirement plans cause even persons right out of high school to be reminded that some day they will be old and not be earning wages. While this is a subtle benefit difficult to measure, it exists nevertheless and is of extreme and utmost importance to the economic and social well-being of our country. I was reminded again recently of this phenomenon in a brief conversation with one of my wife's young woman friends, who at the age of 26 has built up in her employer's profit sharing plan approximately $15,000.00, and who is extremely proud of it, aware of its potential importance to her, and views it as a significant aspect of her self-sufficiency and self-esteem. She, interestingly enough, acknowledges that she probably never would have begun an Individual Retirement Account program (which she now has), if the profit sharing plan had not raised her level of consciousness, because she never would have had occasion to sit down and think about getting old.

(3) The private employee benefit system is significant for the saving and investment impact it has on the economy.

Totally aside from individual benefit, there is a collective national benefit in the accumulation of funds available for investment as a result of the private employee benefit plan system. Some might suggest that the capital investment would occur anyway, but my practice has demonstrated to me that as to the small employers I represent, the funds which presently go into the private employee benefit plans and get invested in the economy's capital markets would generally be consumed rather than invested in the capital markets, if the private employee benefit plan system did not exist.

THE MOSES H. CONE MEMORIAL HOSPITAL
GREENSBORO, NORTH CAROLINA 27401-1020

HUMAN RESOURCES

July 31, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

RE: Taxation of Employee Benefits
Hearing Dates: July 26, 27, & 30, 1984

Dear Mr. DeArment:

For 30 years, The Moses H. Cone Memorial Hospital has been greatly interested in the economic security of their employees, retirees, and their dependents. We not only have offered them immediate compensation, but also employer-sponsored benefits to protect them against catastrophic medical bills, to provide death benefits and to provide income upon retirement. These benefits do not principally go to the highly paid employees or only to men, but they are provided for all employees equally from the President of the Hospital to the service workers.

Although these benefits are costly to the Hospital, we consider it a good investment in our employees. Private enterprise has built an effective and efficient means of covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. This arrangement of providing for these needs that all people have should not be systematically dismantled just to provide greater tax revenues which in turn would have to be used to meet the needs which private enterprise would no longer be able to provide. The employee needs are there and must be met by someone. If private enterprise is not encouraged to meet the needs, then government must. We believe the ultimate price to our nation will be greater if it meets the needs than the resulting tax revenue loss if private enterprise continues to provide the benefits.

Sincerely,

Judith P. Hobson

Judith P. Hobson
Compensation & Benefits Manager

PRESIDENT
Allen H. Carruth
P.O. Box 1388, Houston, TX 77251

VICE PRESIDENT
Sidney A. Stewart, Jr., CPCU
Memphis, TN

SECRETARY
James W. Noyes
Media, PA

TREASURER
John F. Doetzer, CPCU
Baltimore, MD

BOARD OF DIRECTORS
Richard A. Archer
Los Angeles, CA
Robert E. Bill
Farmingdale, NY
James W. Bily
Wichita, KS
Paul N. Borman
Fargo, ND
William L. Burch
Los Angeles, CA
John L. Clarke
Charlotte, NC
Vincent J. Como
Bridgeport, CT
Charles C. Counselman, Jr.
Baltimore, MD
*Edwin A. Flinn, Jr.
San Francisco, CA
John C. Clandon, CPCU
Columbus, OH
L. Graham Haynie, Jr.
Roanoke, VA
*William T. Huntley, III, CPCU
Atlanta, GA
Clifton C. Inge
Mobile, AL
Joseph E. Johnson, CPCU
Briarcliff Manor, NY
*John A. Kohler, CPCU
Minneapolis, MN
Walker Lundberg
Fresno, CA
Davenport Mosby, Jr.
Jackson, MS
*Don Oliver, CPCU
Phoenix, AZ
Arthur L. Owen, CPCU
Dallas, TX
Robert R. Parks, CPCU
Arlington, VA
Ronald S. Pavlik
Elgin, IL
*Henry S. Payson
Portland, ME
William M. Pitcher
Hunt Valley, MD
Marshall T. Polk, III
Nashville, TN
Curtis B. Roberts
Dallas, TX
John F. Russell, CPCU
Binghamton, NY
H. G. Seibels, Jr.
Birmingham, AL
Robert S. Seltzer, CPCU
Elkins Park, PA
*Timothy N. Thoelecke
Chicago, IL
*Lawrence A. Tomlinson, Jr.
Charlotte, NC
*J. Bransford Wallace
Nashville, TN
*Richard J. Weghorn
New York, NY
*John A. Witherspoon, Jr.
Nashville, TN
*Executive Committee

EXECUTIVE VICE PRESIDENT
Bruce T. Wallace

EXECUTIVE DIRECTOR
J. Martin Huber

ASSOCIATE DIRECTOR
Everett Howard

GOVERNMENT AFFAIRS DIRECTOR
Joan Albert Orrus

GOVERNMENT AFFAIRS ASSOCIATE DIRECTOR
Janet A. Burns

GENERAL/LEGISLATIVE COUNSEL
Pierson, Ball & Dowd
Washington, D.C.

1984 AUG 10 PM 3:13

NACSA
NATIONAL ASSOCIATION of CASUALTY & SURETY AGENTS

Government Affairs Office
600 Pennsylvania Avenue, S.E.
Suite 211
Washington, D.C. 20003
(202) 547-6616

August 9, 1984

The Honorable Bob Packwood
Chairman
Taxation and Debt Management Subcommittee
United States Senate
Washington, D.C. 20510

Re: Hearings on Employee Fringe Benefits

Dear Chairman Packwood:

The National Association of Casualty and Surety Agents (NACSA), an association representing the leading commercial property/casualty insurance agencies and brokerage firms throughout the United States, would like to submit for the hearing record on taxation of employee fringe benefits the following brief comments.

NACSA opposes the Administration's proposal to tax employee health care benefits, whether used to raise funds to reduce the federal deficit or to provide health care to the nation's unemployed. NACSA opposas in principle this tax as both discriminatory and unfair. We also believe strongly that this proposed tax would not raise the revenues suggested by its proponents.

A health insurance tax cap proposal would discriminate against older workers, those in high risk occupations, and those living in areas with a high cost of living since these groups pay higher premiums than the average for the same health insurance. NACSA believes it would be unfair for these workers to pay more in taxes than others for the same health protection.

NACSA believes further that using a tax on employee health care benefits to fund the federal deficit or health insurance for the unemployed would be unwise for other reasors as well:

1. Revenues from the tax would be unpredictable since employers may shift taxable employee health benefits to other non-taxable fringe benefits. Also, if the tax achieves its objective, many employees will move to health plans with premiums at or below the proposed tax threshold elminating much of the projected revenue gain;

2. Linking a short-term assistance program to a permanent change in the tax code would make it difficult to eliminate the temporary program when its usefulness ends;

3. This tax would constitute a form of double taxation. Since the government does not reimburse hospitals for all costs associated with treating Medicare/Medicaid patients, the private sector is forced to absorb the difference. In 1982 alone this 'cost shift' amounted to $5.8 billion. This, in effect, is a hidden tax. It would be unfair for the government to shift these costs to private payors of health care and then tax the resulting higher premiums;

4. Greater unemployment may result for the marginally employed (the aged, sick, and disabled) as a result of such a tax. A tax on employee health benefits would present a greater disincentive than under current law to employers to hire or retain these workers whose predictably higher health care costs drive up insurance costs for all employees in a group.

5. A tax on employee health benefits may reduce employer incentives to offer and provide health insurance. Employer plans have broadened the availability of medical coverage to Americans and improved the health and welfare of the vast majority of our citizens. It has also lessened the burden on the government to provide national health benefits above and beyond those provided by the Medicare/Medicaid programs.

6. Finally, such a tax may remove incentives for employers to continue any health benefits voluntarily afforded to laid-off workers. To the extent that health insurance premiums for the unemployed would be counted as taxable income, employer payroll tax costs (FICA and unemployment) would increase. As these costs rise, employers might determine that they can no longer afford such voluntary benefits.

Mr. Chairman, NACSA recognizes the breadth of your recent hearings on fringe benefits has gone beyond a tax cap on employee health care benefits. Since the issue of employee fringe benefits will be the subject of further debate in the next congress, we would like to reserve the right to submit additional comments next year on health care benefits and other employee fringe benefits under consideration by your subcommittee and others.

Sincerely,

Joan Albert Dreux
Executive Director
Government Affairs

JAD:js
cc: Chairman Robert J. Dole and Subcommittee Members

STATEMENT OF

THE NATIONAL ASSOCIATION OF PRIVATE PSYCHIATRIC HOSPITALS

ON

TAXATION OF EMPLOYEE FRINGE BENEFITS

BEFORE THE

SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

August 8, 1984

Dear Chairman Packwood,

The National Association of Private Psychiatric Hospitals, (NAPPH) representing the nation's freestanding, nongovernmental psychiatric hospitals, appreciates the opportunity to submit this statement on the issue of taxation of employee fringe benefits.

Employee fringe benefits serve a useful social purpose by permitting American workers ready access to a wide range of services that would otherwise be unaffordable or unavailable, or both. Sociological and psychiatric studies have shown--and continue to show--that an increasingly larger proportion of the American workforce must cope with a high-stress environment. There is ample evidence of a higher rate of utilization of health insurance benefits as workers struggle to cope with stress and to treat a physical or a mental illness.

The NAPPH strongly believes that these fringe benefits should be fully available, affordable, and accessible--and should not be subject to arbitrary limitations or reduction through taxation. To limit or reduce these benefits not only penalize the worker and his family but also harms society as a whole by

placing in jeopardy the guarantee of physical, and mental well-being of the American worker.

Employee fringe benefits are socially desirable as public policy for these reasons.

1) These benefits provide economic security for American workers and their families and social stability for the country as a whole in the area of health insurance. Tax preferences for employer-paid health insurance help to cushion workers and their families against financial risk or catastrophic expense. Data from 1982 show that 76 percent of all workers and 90 percent of full-time full-year workers receive health coverage through an employer-paid group health insurance plan. Coverage as extensive as this promotes a social good by assuring workers a stable and consistent benefit that protects them from unforseen catastrophic health care expenses.

2) The issue of taxation of employee fringe benefits affects a large population--approximately 150 million employees, employers, and unions. The increasingly large percentage of workers who have acquired employer-provided insurance coverage shows a growing appreciation of the value of fringe benefits

to the productivity of the workforce. In particular, data furnished by Washington Business Group on Health show conclusively that adequate and affordable mental illness coverage reduces absenteeism and markedly improves employee performance in terms of morale and productivity. A stable, healthy, and productive workforce is due in no small part to the availability of employer-paid benefits, such as medical and psychiatric inpatient services.

3) The majority of workers--some 73 percent--who would be most affected in an adverse manner by taxation of fringe benefits are the middle class. These workers are in the middle income range from $25-30,000 (1982 figures). It would be unwise public policy for the Congress to enact legislation that subjects middle-class workers, already struggling with high interest rates for homes and other living costs, to a regressive tax that further diminishes their spending power.

The NAPPH is strongly opposed to taxing the value of employer-provided health benefits. Use of a tax cap to control health care costs or raise revenues is both bad tax policy and bad health policy for the following reasons:

1) Our present tax system encourages the private sector to

undertake programs in order to minimize the need for tax supported programs. The tax cap on employer sponsored programs would reduce the government's commitment to use tax incentives to assist the private sector to provide protection against health care costs.

2) A tax cap would have serious effects on older and chronically ill employees. Adverse selection of high or low option health plans will seriously impair the viability of many programs.

3) A tax cap would not effectively contain health care costs. Other measures such as prospective payment, HMOs, and PPOs have demonstrated significant savings. More and more employers are offering their employees options which contain financial incentives to control health care costs while providing all employees with necessary care.

4) The tax cap proposal would have an adverse impact on those with lower incomes. Statistics from Blue Cross/Blue Shield report that workers who earn less than $10,000 a year would pay an additional 2.8 percent of their income average.

This Association is unalterably opposed to a single national

ceiling on employer contributions to health care benefits. Such a ceiling would fail to recognize that medical costs vary widely by geographical area, age composition, population intensity, provider distribution, and a host of other factors. Most important, a single national cap would signal the reduction of coverage for psychiatric benefits already limited at best, since health insurance policies, more likely than not, would be restructured to fit a lower premium dollar.

The NAPPH, therefore, urges this Committee to reject any proposals designed to limit the tax exclusion of employer-paid health insurance benefits and to discard any scheme intended to raise revenue for the Treasury by imposing an arbitrary and inequitable tax on other employee fringe benefits.

STATEMENT OF

THE NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS

ON

EMPLOYEE FRINGE BENEFITS

TO THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

UNITED STATES SENATE

JULY 26, 1984

The following statement is submitted by the National Association of Professional Insurance Agents (PIA) for inclusion in the record of the hearings on fringe benefits, held by the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance on July 26, 27 and 30, 1984.

PIA is a trade association representing over 40,000 independent property and casualty insurance agents in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Our members provide and are involved in the sale and service of some employee benefits.

Employee benefits represent virtually any form of compensation that is provided in a form other than direct wages, paid for in whole or in part by the employer, even if provided by a third party. Different benefits serve different social and economic needs. Through employer-provided benefit programs, the bulk of the working population are given protection.

PIA believes fringe benefits are a proven way by which economic prosperity is shared among all employees. They are more cost-effective than reliance on individual initiative as a way of assuring a basic level of security. As small businessowners, our member-agents have the social responsibility of adequately protecting their employees.

PIA is concerned as to how Congress will define fringe benefits for federal taxation purposes. We are opposed to taxation of the "core benefit package" -- basic benefits like life, health, disability and pension.

Before the advent of this core benefit package, unless an agent was able to sit down with an individual and sell him a policy, individuals generally put off the purchase of essential insurance protection -- often with disastrous results for surviving families and additional strain on social, charitable and governmental services. By supplementing individual sales and underwriting, group insurance has opened chanels of insurance to millions of employees regardless of age, sex, physical condition or nature of employment.

The advent of group health coverage for the small business-owner was a great assistance. Insurance agency principals could offer comparable health benefit packages to those offered by larger employers. This improved the competitiveness of the insurance agency in recruiting employees. As insurance agents, we have prided ourselves on being able - in most cases - to offer a better-than-average health benefit program.

Employers are able to attract and retain employees through the provisions of health coverage. Employee morale and productivity are enhanced as a result of increased job satisfaction and this, in turn, strengthens our nation's economy.

Tax laws favoring specific employer retirement and health insurance plans and other statutory employee benefits were enacted under the premise that extensive coverage of employees and their dependents under these plans is desirable social policy. The growth of employee coverage by pensions and health insurance has been strongly encouraged by the tax advantage accorded these plans and by the needs of employees and their dependents and survivors for economic security.

With respect to "plus benefit package," i.e., vision care, dental care, etc., PIA will be willing to look at those, if appropriate, and the degree of favorable tax treatment.

Defining fringe benefits as "corporate perks" would depend on the nature of the organization providing the benefits and the position of the recipient of the benefits. As an association, PIA will assess them on a one-on-one basis to determine how important they are to the particular industry. The use of a company car, for example, is important for insurance agents to make their calls on clients. Thus, this benefit should not be taxable.

The key to the development of employee group insurance and essential to its continuation is the favorable tax climate that permitted its development.

The current system of employee benefit taxation is working well and should be continued. The present structure has fostered a very efficient informal partnership between Government, employers and employees. Private enterprise has built an effective and efficient arrangement covering the needs of employees through employer-sponsored pension and welfare plans. It benefits the majority of employees and their dependents. One major reason for the success of the current system is its flexibility in accommodating the varying needs of different types of employees.

The Department of the Treasury is concerned that the expansion of the fringe benefits has reduced the Federal income and social security tax bases and has caused tax rates to be higher than they would otherwise be. Treasury is also concerned that the tax benefits derived from the existing statutory fringe benefits are not fairly distributed among taxpayers.

PIA recognizes the need for Congress to reduce the federal deficit. However, if broad reconsideration is to be given to the tax treatment of employee benefits, it is essential that before any decision is made, Congress not lose sight of the value of fringe benefits on our nation's social program. While the primary purpose of the Department of the Treasury is to collect revenues for the Federal Government, the Internal Revenue Code is also designed to encourage many socially desirable activities in furtherance of a commitment to certain national objectives. Employer-sponsored benefit plans provide essential financial security for employees. PIA believes we should not take an ax to fringe benefits merely for the sake of generating more tax revenues. Doing this may be a "penny-wise and pound-foolish" decision.

Finally, PIA views the tax law as an important instrument that promotes national economic policy. We, therefore, recommend a fringe benefit law that promotes employee benefits in an effective and cost-efficient manner and, at the same time, achieve national economic objectives.

* * *

LMA:mc

39-707 O - 85 - 68

STATEMENT OF

THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

TO THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

SENATE COMMITTEE ON FINANCE

August 8, 1984

Washington, D. C.

The National Automobile Dealers and Associates Retirement Trust (NADART) is part of the National Automobile Dealers Association (NADA), a trade association representing approximately 18,500 retail new car and truck dealers throughout the United States. NADART is the Plan Administrator of a Pension and Profit Sharing Master Plan approved by the Internal Revenue Service; NADART also administers a 401(k) Profit Sharing Plan. Members of NADA may adopt one or more of the plans sponsored by NADART. Currently NADART administers approximately 4,000 small employer plans, covering approximately 70,000 employee participants and $575 million in assets.

We are pleased to have this opportunity to present our comments with regard to the effectiveness of current tax law, and the impact of future legislation on the tax incentives available to employers who sponsor private pension plans.

We believe that the existing tax incentive system for private pension plans is effective and should continue without substantial modification. Over the past several years, employers in this country have been responsible for a significant increase in the personal security enjoyed by American workers. Employers have been encouraged to provide benefit plans for their employees in exchange for favorable tax treatment. Employers have, in turn, saved the federal government substantial amounts which would otherwise have been necessary

to fund and operate government welfare plans. Employee benefit plans have been the most efficient and cost effective way an employer can provide for the economic security of his employees - - the type of security which the federal government is not in the position to provide. Unfortunately, with each new piece of legislation, the tax environment for pension plans, particularly plans provided by small employers, is becoming more and more uncomfortable and unstable.

Since the enactment of ERISA in 1974, we have seen a major piece of legislation dealing with pension benefit plans just about every two years. Each piece of legislation seems to be increasingly motivated by concerns over the federal deficit - - the Tax Reform Act in 1976, the Revenue Act in 1978, the Multi-Employer Act in 1980, ERTA in 1981, TEFRA in 1982, and the recently enacted Deficit Reduction Act in 1984. The laws affecting pension plans are passed in such rapid succession that it is impossible to determine the impact of each piece of legislation on the pension system. Small employers, in particular, can hardly keep up with the costs and administrative complexities of the constant amendments required by Congress and IRS. With still further changes in pension policy anticipated in 1985, and the possibility of Congress negating the current beneficial tax treatment protecting employee benefits, it will only be a matter of time before a substantial number of small employers terminate their plans.

NADART believes that the existing non-discrimination and minimum standard rules are adequate to ensure that pension plans benefit employees at all salary levels. A 1983 nationwide survey sponsored by the Employee Benefit Research Institute (EBRI) revealed that 76% of the 49.5 million covered workers and 70% of the 28.7 million workers with a vested right to some future benefit earned less than $25,000 annually. These figures reinforce the conclusion that pensions benefit employees in low and middle income ranges. There appears to be no factual argument that employers provide benefits primarily for the highly paid.

NADART feels that the tax law should continue to encourage employers to provide pension benefits, and not regard them as an untapped source of revenue. It would be particularly devastating to small employers if they were to lose the existing tax incentives available for employer sponsored pension plans. In the absence of favorable tax incentives, a small employer could not afford to offer a retirement plan to his workers. As a result, the small employers would lose their competitive ability to attract and keep qualified employees. We feel that benefits are not provided by the employer solely for the purpose of sheltering income, but also for the purpose of promoting good morale, security, and productivity among workers. At a time when the availability of government provided benefits is increasingly the subject of speculation, the need for continued

encouragement of the private plan system through reasonable tax incentives is vital. Preferential tax treatment for these plans have encouraged their growth in the past, and is a wise investment in the economic security of our nation. The Social Security system alone is not able to provide the appropriate benefits needed for an employee to maintain his pre-retirement standard of living. It is only with the combination of social security, individual savings, and the private pension system that an employee can achieve adequate retirement security.

We realize that Congress is responsible for finding appropriate ways to reduce the federal deficit but, in doing so, we hope that they will consider the significant value of employer sponsored pension plans. Legislation enacted simply to increase revenue without fully taking a good look at the social policy reasons for these tax-preferred arrangements is a serious mistake. We believe Congress, in drafting the constant barrage of legislation affecting pension plans, has placed too much emphasis on creating revenue in the near future, and not enough emphasis on the long-term effects this legislation may have on the economic security of our workers.

We hope that our concerns as to future Congressional tax policy will be considered, and urge that the tax incentives available under current law be continued in order to encourage

the formation of private pension plans - - plans which are the most reliable mechanism for the long-term growth of retirement savings.

Thank you.

Respectfully Submitted,

National Automobile Dealers
and Associates Retirement Trust

By: Barbara Collins
Compliance Department

NATIONAL EDUCATION ASSOCIATION • 1201 16th St., N.W., Washington, D.C. 20036 • (202) 833-4000

MARY HATWOOD FUTRELL, President
KEITH GEIGER, Vice President
ROXANNE E. BRADSHAW, Secretary-Treasurer

DON CAMERON, Executive Director

TESTIMONY

OF THE

NATIONAL EDUCATION ASSOCIATION

ON

FRINGE BENEFITS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

UNITED STATES SENATE

AUGUST 9, 1984

Mr. Chairman and Members of the Committee:

The 1.7 million members of the National Education Association are the teachers, faculty, and education support personnel in the public schools and institutions of higher education in every state of the union. These men and women have dedicated their careers to the largest single social program funded totally within the public sector--the education of our young. Yet those serving in this demanding profession receive less than adequate salaries for the vital services they provide. Now we find also that their attempts to improve professionally have been thwarted by tax code revisions in a false economy move aimed at taxation of fringe benefits.

As a result of the conference on HR 4170, the Tax Reform Act of 1984, employers must again make withholding judgments on whether educational assistance courses are "job related" or not, even though no clear definition of "job relatedness" exists. More importantly, all employers who have not withheld taxes since December 31, 1983, may have to withhold for back taxes, and may even be subject to penalties. The application of FICA and FUTA amounts to a combined employer-employee tax of 16 percent on educational assistance. This is harsh. In a profession with a beginning average salary of $14,000, it represents a clear disincentive for professional improvement.

The job-relatedness criterion for excluding educational assistance clouds the support of further education by employers and employees alike. The revenues captured by this move would be more than offset by individuals who learn more, earn more, and pay more taxes.

But the participation of workers in educational programs should not be encouraged solely because of the taxes they might pay. Worker productivity also increases with knowledge and the incentives gained from knowledge. As

productivity expands, the economy is strengthened. Educational personnel who participate in inservice training and other programs to increase their skills and knowledge return great benefits to students and to society as a whole as a result of that participation. And it has been demonstrated that employee participation in education programs greatly increases when tax law encourages it. It is counterproductive in a rapidly changing, technological society to legislate disincentives to further education. It also runs counter to the promotion of economic growth.

Our members strongly support the reinstatement and extension of Section 127 of the tax code, as provided for in Senator Packwood's bill, S 249. This measure would provide for the exclusion of employer-provided educational assistance from employee income.

Impact on Elementary/Secondary Education

The Tax Reform Act of 1984 specifically thwarts the national effort to promote excellence in education. Recent federal education legislation, and the proposed American Defense Education Act, recognize the upgrading of teacher skills as a key element to guarantee success of the national effort. State legislation and local school board policies enacted in the past two years have the same emphasis. Thus, tax policy at the national level which impedes educational progress is unacceptable.

The total instructional staff of public schools in 1983-84 is estimated at 2.4 million, including 2.1 million teachers and 300,000 principals, supervisors, librarians, guidance and psychological personnel, and related instructional workers. The number of public classroom teachers decreased by an estimated 18,000 during the school year just ended. We know that enrollments will rise in the years ahead and that the demands on the schools will be greater in response to the rapid changes in society and the workplace. Adequate salaries will have

to be paid to attract the best young people to the teaching profession. In addition, existing staff and for new personnel alike will need continuing education opportunities to enhance their skills.

In many school districts educational assistance is a significant factor in recruiting and retraining instructional staff. According to Educational Research Service (ERS), 28 percent of all school districts offer some kind of tuition reimbursement. The regional breakdown is as follows.

Region	Percent of Districts Offering Tuition Reimbursements
New England	54.1
Mid-Atlantic	57.5
Southeast	25.8
Great Lakes	29.6
Plains	12.1
Southwest	15.8
Rocky Mountains	7.3
Far West	13.6

A summary table prepared by ERS is attached (Attachment A).

The educational attainment of teachers is often a factor in job advancement as well as job placement. It is common for school systems to require an advanced degree plus a specific number of years inservice for an individual to reach the top of the salary scale. Currently more than 52 percent of all teachers have a master's degree, according to NEA Research estimates.

Impact on Higher Education

A substantial drop in enrollment in adult and continuing education programs would result from the provisions of the new tax law, according to the American Society for Training and Development (ASTD). This group estimates that some seven million employees now receive some kind of tuition assistance from their employers. Officials at the University of California at Los Angeles estimate that one-half to two-thirds of the 36,000 students enrolled in business and

management courses there could be forced to change their educational plans. The hardest hit employees will be those earning less than $25,000 annually. These people represent an estimated 55 percent of the enrollees in continuing education. If a substantial number of employees drop out of such courses or cancel plans to enroll, employment opportunities at schools and colleges will be reduced, along with a shrinkage in course offerings.

A Raid on Fringe Benefits

The taxation of educational assistance sets a precedent for a wholesale assault on fringe benefits which we believe would be catastrophic. Given the generally low level of salaries in public education, the taxation of fringe benefits would be a further disincentive for education personnel to remain in the profession. Pension coverage and health benefits are two of the benefits that to some degree balance the small paycheck. For many teachers and support staff, the taxation of these benefits would be the "last straw" forcing them to leave education.

NEA Research reports that the average classroom teacher salary for 1983-84 is estimated at $22,019. This is roughly twice the average salary of ten years ago, but Attachment B shows how teachers have actually taken cuts in pay when their salary patterns are shown in constant 1971-72 dollars.

Taxing Fringe Benefits is Poor Economy

A significant longterm effect of taxing fringe benefits would be the need to enact additional money measures to compensate for the relative dollar loss of employer-paid benefits. NEA believes the nation cannot now or in the future afford the loss of those benefits.

The case for tax laws favoring employee benefits is based on the premise that such benefits are good social policy. The encouragement of health insurance protection or improved education of workers strengthens our citizens. The

encouragement of employers and employees in this area is good public policy. For example, the tax law has succeeded in distributing pension coverage broadly among lower- and middle-income workers, affording families a type of savings plan that could be difficult to maintain on individual initiative. It has helped spread health insurance coverage across the income spectrum. Educational assistance has helped the unemployed, underemployed, and the lower wage earners to help themselves. Group life and accident insurance provide enormously valuable protection to families, and such programs are, for most workers, an irreplaceable supplement to their private insurance and Social Security coverage. Tax law which provides these significant benefits to society must be preserved without taxation of fringe benefits for individuals.

Action Needed Now

The success story of educational assistance is compellingly told by the experience of education personnel, but we believe that the benefits of such programs are significant in all areas of employment. So significant, in fact, that in the remaining few weeks of this session, we urge the Congress to place this issue high on its agenda and reinstate the exemption. It can be done easily and quickly if there is a will to do it, and the National Education Association will gladly help in any way to secure enactment of the legislation.

TABLE 25.--SUMMARY OF SELECTED FRINGE BENEFITS FOR TEACHERS IN REPORTING SCHOOL SYSTEMS, BY GEOGRAPHIC REGION, 1981-82

	GEOGRAPHIC REGION								
	NEW ENGLAND	MID-ATLANTIC	SOUTHEAST	GREAT LAKES	PLAINS	SOUTHWEST	ROCKY MOUNTAIN	FAR WEST	TOTAL ALL
1	2	3	4	5	6	7	8	9	10
TOTAL RESPONDING	61	167	151	230	116	95	55	169	1,044
PERCENT PROVIDING SICK LEAVE	100.0	98.8	100.0	99.6	99.1	100.0	100.0	99.4	99.5
SPECIFIED NO. DAYS PER YR.*	100.0	98.8	100.0	98.3	95.7	100.0	94.5	100.0	98.7
PROVIDED AS NEEDED*	---	1.2	---	1.7	4.3	---	5.5	---	1.3
UNLIMITED ACCUMULATION OF UNUSED LEAVE DAYS ALLOWED*	28.6	57.0	53.0	21.8	27.0	63.2	40.0	96.4	49.5
SICK LEAVE COUNTS TOWARDS RETIREMENT SERVICE*	11.5	19.4	29.8	35.8	11.3	27.4	16.4	81.0	33.7
PERCENT PROVIDING PERSONAL/ EMERGENCY LEAVE	96.7	96.4	97.4	94.8	95.7	92.6	94.5	95.9	95.6
CHARGED IN WHOLE OR PART TO SICK LEAVE*	11.9	18.3	47.6	20.6	46.8	44.3	26.9	76.5	37.5
PERCENT PROVIDING SABBATICAL LEAVE	90.2	78.4	46.4	72.2	57.8	45.3	74.5	79.9	67.8
SICK LEAVE--									
DAYS CREDITED PER YEAR	17	13	11	13	13	10	10	12	12
MAXIMUM ACCUMULATION	151	173	99	157	116	106	101	121	136
PERSONAL/EMERGENCY LEAVE-- DAYS ALLOWED PER YEAR	4	4	3	3	3	3	3	5	3
PERCENT PROVIDING INSURANCE: GROUP HOSPITALIZATION	91.8	99.4	91.4	98.3	97.4	82.1	100.0	96.4	95.3
SINGLE COVERAGE*	100.0	97.6	94.9	98.2	87.6	88.5	90.9	86.5	93.5
FULLY PAID*	44.6	82.5	48.6	70.4	66.4	59.0	65.5	76.7	67.3
FAMILY COVERAGE*	91.1	95.8	37.0	87.2	56.6	19.2	45.5	74.8	68.7
FULLY PAID*	41.1	69.3	4.3	44.2	13.3	2.6	18.2	58.9	36.9
MEDICAL/SURGICAL	90.2	96.4	87.4	98.3	92.2	77.9	98.2	96.4	93.1
SINGLE COVERAGE*	100.0	98.1	94.7	98.2	87.9	89.2	90.7	87.1	93.7
FULLY PAID*	43.6	83.2	49.2	71.2	67.3	59.5	66.7	76.7	68.0
FAMILY COVERAGE*	90.9	96.3	38.6	86.7	55.1	18.9	46.3	75.5	69.2
FULLY PAID*	40.0	70.2	5.3	45.1	18.0	1.4	18.5	58.3	37.6
MAJOR MEDICAL	100.0	99.4	90.7	98.7	94.0	76.8	98.2	97.0	94.9
SINGLE COVERAGE*	100.0	98.8	95.6	98.2	87.2	89.0	90.7	86.6	93.8
FULLY PAID*	41.0	83.7	47.4	69.6	65.1	58.9	66.7	76.8	66.9
FAMILY COVERAGE*	88.5	96.4	37.2	86.8	55.0	17.8	46.3	75.0	68.9
FULLY PAID*	37.7	70.5	3.6	41.6	13.8	1.4	18.5	58.5	36.9

PERCENT PROVIDING INSURANCE:									
DENTAL	39.3	83.2	17.2	72.2	53.4	33.7	58.2	98.2	62.0
SINGLE COVERAGE*	100.0	96.4	96.2	97.6	88.7	90.6	93.8	90.4	94.1
FULLY PAID*	75.3	69.8	65.4	74.1	69.4	68.8	62.5	81.3	73.4
FAMILY COVERAGE*	91.7	73.4	46.2	83.7	33.9	18.8	31.3	66.9	65.4
FULLY PAID*	66.7	46.8	19.2	54.8	9.7	...	9.4	56.0	43.1
VISION CARE	13.1	18.0	3.3	20.9	3.4	9.5	12.7	58.6	20.1
SINGLE COVERAGE*	100.0	90.0	100.0	95.8	100.0	77.8	100.0	90.9	92.4
FULLY PAID*	87.5	50.0	100.0	75.0	100.0	44.4	28.6	81.8	73.3
FAMILY COVERAGE*	87.5	76.7	40.0	85.4	100.0	...	57.1	62.6	68.1
FULLY PAID*	75.0	36.7	40.0	62.5	...	...	14.3	54.5	44.5
PRESCRIPTION DRUGS	36.1	53.3	43.7	61.7	30.2	54.7	61.8	65.7	52.8
SINGLE COVERAGE*	36.1	51.5	41.0	61.3	28.8	47.4	56.4	56.8	49.7
FULLY PAID*	18.0	40.1	20.5	41.0	19.8	30.5	40.0	47.9	34.8
FAMILY COVERAGE*	32.8	48.5	13.9	53.9	19.8	8.4	29.1	44.4	36.1
FULLY PAID*	18.0	33.5	.7	31.3	6.0	1.1	10.9	33.7	20.2

MEAN PERCENT OF INSURANCE PREMIUM PAID IF LESS THAN FULL:									
HOSPITALIZATION--									
SINGLE COVERAGE	71%	82%	63%	88%	77%	69%	81%	83%	76%
FAMILY COVERAGE	70	79	48	72	64	44	62	71	67
MEDICAL/SURGICAL--									
SINGLE COVERAGE	71	81	61	88	80	67	82	83	75
FAMILY COVERAGE	70	78	48	71	63	43	62	71	66
MAJOR MEDICAL--									
SINGLE COVERAGE	70	76	63	87	80	68	82	83	75
FAMILY COVERAGE	70	76	50	72	63	46	62	72	66
DENTAL--									
SINGLE COVERAGE	92	77	62	84	71	72	82	87	79
FAMILY COVERAGE	84	70	64	74	61	52	56	70	69
VISION CARE--									
SINGLE COVERAGE	90	79	...	70	...	64	78	80	77
FAMILY COVERAGE	90	77	...	77	85	...	72	79	78
PRESCRIPTION DRUGS--									
SINGLE COVERAGE	74	76	63	88	70	66	84	87	76
FAMILY COVERAGE	72	77	51	73	72	45	67	80	69

TABLE 25.--SUMMARY OF SELECTED FRINGE BENEFITS FOR TEACHERS IN REPORTING SCHOOL SYSTEM, BY GEOGRAPHIC REGION, 1981-82
(CONTINUED)

	GEOGRAPHIC REGION								
	NEW ENGLAND	MID-EAST	SOUTH-EAST	GREAT LAKES	PLAINS	SOUTH-WEST	ROCKY MOUNTAINS	FAR WEST	TOTAL-ALL REGIONS
1	2	3	4	5	6	7	8	9	10
PERCENT PROVIDING INCOME PROTECTION INSURANCE.....	27.9	38.9	47.7	56.5	56.0	43.2	61.8	34.9	46.3
MEAN SALARY COVERAGE (%)...	63% 8.2	59% 15.6	70% 19.2	64% 30.0	64% 36.2	64% 11.6	62% 32.7	66% 14.8	64% 21.4
MEAN MONTHLY BENEFIT/LIMIT	$1,145 8.2	$1,466 15.0	$1,202 13.9	$1,664 23.5	$2,167 29.3	$1,225 14.7	$1,872 29.1	$1,664 10.7	$1,614 17.9
PERCENT PROVIDING GROUP LIFE INSURANCE.....	83.6	58.1	68.9	89.1	59.5	73.7	81.8	62.1	71.5
FULLY PAID*-----------	31.4	51.5	52.9	55.1	49.3	28.6	48.9	52.4	48.9
MEAN PERCENT OF PREMIUM PAID IF LESS THAN FULL....	68% 24.6	70% 6.0	45% 4.0	76% 7.4	57% 1.7	45% 5.3	62% 9.1	90% .6	66% 5.8
MEAN FACE VALUE/MAXIMUM VALUE OF POLICY.....	$8,882	$22,280	$15,509	$16,824	$14,649	$9,521	$26,058	$17,207	$17,053
PERCENT PROVIDING PROFESSIONAL LIABILITY INSURANCE.....	58.9	68.3	72.9	68.5	75.0	60.1	83.6	44.5	65.4
PERCENT WITH RETIREMENT PLANS:									
STATE RETIREMENT SYSTEM.....	100.0	94.6	90.1	95.2	88.8	95.8	98.2	96.8	94.3
LOCAL RETIREMENT SYSTEM.....	---	.6	---	.4	2.6	1.1	---	---	.6
STATE AND LOCAL RETIREMENT SYSTEMS.....	---	.6	5.3	.9	6.0	2.1	---	---	1.9
SOCIAL SECURITY COVERAGE.....	14.8	88.6	79.5	44.3	63.8	37.9	45.5	26.0	53.4
TAX-SHELTERED ANNUITY PLAN...	72.1	79.0	82.1	81.7	73.3	80.0	78.2	69.2	77.5
EARLY RETIREMENT OPTION.....	47.5	47.9	29.8	53.5	45.7	28.4	61.8	72.8	49.2
PERCENT PROVIDING SEVERANCE PAY.....	27.9	64.1	33.8	62.2	31.0	36.8	52.7	13.6	42.2
PERCENT WITH TUITION REIMBURSEMENT PROVISIONS.....	54.1	57.5	25.8	29.6	12.1	15.8	7.3	13.6	28.0
PERCENT PAYING ALL OR PART OF TEACHER ORG, MEMBERSHIP DUES	1.6	1.2	---	.9	---	1.1	3.6	1.2	1.0
PERCENT WITH COLLECTIVE NEGOTIATIONS AGREEMENTS.....	98.4	97.0	19.9	94.3	79.3	29.5	67.3	95.9	75.5

NOTE: TABULATIONS OF SINGLE AND FAMILY GROUP INSURANCE COVERAGE DO NOT INCLUDE SCHOOL SYSTEMS THAT PROVIDE SUCH COVERAGE UNDER "CAFETERIA PLAN" ARRANGEMENTS.

* PERCENTS BASED ON ONLY THOSE RESPONDENTS PROVIDING THE BENEFIT SPECIFIED ABOVE.

STATES INCLUDED IN GEOGRAPHIC REGIONS--NEW ENGLAND: CT, ME, MA, NH, RI, VT; MIDEAST: DE, DC, MD, NJ, NY, PA; SOUTHEAST: AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV; GREAT LAKES: IL, IN, MI, OH, WI; PLAINS: IA, KS, MN, MO, NE, ND, SD; SOUTHWEST: AZ, NM, OK, TX; ROCKY MOUNTAINS: CO, ID, MT, UT, WY; FAR WEST: AK, CA, HI, NV, OR, WA.

ATTACHMENT B

TABLE 3. AVERAGE CLASSROOM TEACHER SALARIES IN CURRENT AND CONSTANT 1971-72 DOLLARS, 1973-74 and 1983-84, BY STATE

State	Average teacher salary 1973-74	Average teacher salary 1983-84	Percent change 1973-74 to 1983-84	Average teacher salary 1973-74 (constant 1971-72 $)	Average teacher salary 1983-84 (constant 1971-72 $)	Percent change in (constant $ salary) 1973-74 to 1983-84
1	2	3	4	5	6	7
Alabama	9,227	18,000	95.1	8,037	7,212	-10.3
Alaska	15,667	36,564	133.4	13,647	14,649	7.3
Arizona	10,428	21,605	107.2	9,084	8,656	-4.7
Arkansas	7,820	16,929	116.5	6,812	6,782	-0.4
California	13,106	26,403	101.5	11,416	10,578	-7.3
Colorado	10,131	22,895	126.0	8,825	9,173	3.9
Connecticut	11,038	22,624	105.0	9,615	9,064	-5.7
Delaware	11,303	20,925	85.1	9,846	8,383	-14.9
Dist. of Columbia	12,733	27,659	117.2	11,091	11,081	-0.1
Florida	9,989	19,545	95.7	8,701	7,831	-10.0
Georgia	9,365	18,505	97.6	8,158	7,414	-9.1
Hawaii	13,114	24,357	119.2	9,681	9,758	0.8
Idaho	8,260	18,640	125.7	7,195	7,468	3.8
Illinois	11,984	23,345	94.8	10,439	9,353	-10.4
Indiana	10,492	21,587	105.7	9,139	8,649	-5.4
Iowa	9,854	20,140	104.4	8,584	8,069	-6.0
Kansas	8,895	19,598	120.3	7,748	7,852	1.3
Kentucky	8,301	19,780	138.3	7,231	7,925	9.6
Louisiana	9,166	19,100	108.4	7,984	7,652	-4.2
Maine	9,238	17,328	87.6	8,047	6,942	-13.7
Maryland	11,741	24,095	105.2	10,227	9,653	-5.6
Massachusetts	11,128	22,500	102.2	9,693	9,014	-7.0
Michigan	12,473	28,877	131.5	10,865	11,569	6.5
Minnesota	11,076	24,480	121.0	9,648	9,808	1.7
Mississippi	7,606	15,895	109.0	6,625	6,368	-3.9
Missouri	9,526	19,300	102.6	8,298	7,732	-6.8
Montana	9,428	20,657	119.1	8,213	8,276	0.8
Nebraska	9,168	18,785	104.9	7,986	7,526	-5.8
Nevada	11,576	23,000	98.7	10,084	9,215	-8.6
New Hampshire	9,611	17,376	80.8	8,372	6,962	-16.8
New Jersey	11,897	23,044	93.7	10,363	9,232	-10.9
New Mexico	9,181	20,760	126.1	7,997	8,317	4.0
New York	13,362	26,750	100.2	11,639	10,717	-7.9
North Carolina	10,229	18,014	76.1	8,910	7,217	-19.0
North Dakota	8,472	20,363	140.4	7,380	8,158	10.5
Ohio	10,101	21,421	112.1	8,799	8,582	-2.5
Oklahoma	8,230	18,490	124.7	7,169	7,408	3.3
Oregon	9,927	22,833	130.0	8,647	9,148	5.8
Pennsylvania	10,921	22,800	108.8	9,513	9,135	-4.0
Rhode Island	11,407	24,641	116.0	9,936	9,872	-0.6
South Carolina	8,550	17,500	104.7	7,448	7,011	-5.9
South Dakota	8,109	16,480	103.2	7,064	6,603	-6.5
Tennessee	8,841	17,900	102.5	7,701	7,171	-6.9
Texas	8,922	20,100	125.3	7,772	8,053	3.6
Utah	9,141	20,256	121.6	7,963	8,115	1.9
Vermont	8,937	17,931	100.6	7,785	7,184	-7.7
Virginia	9,919	19,867	100.3	8,640	7,960	-7.9
Washington	11,295	24,780	119.4	9,839	9,928	0.9
West Virginia	8,313	17,482	110.3	7,241	7,004	-3.3
Wisconsin	10,830	23,000	112.4	9,434	9,215	-2.3
Wyoming	9,689	24,500	152.9	8,440	9,816	16.3
U.S. and D.C.	10,778	22,019	104.3	9,389	8,822	-6.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, *The Consumer Price Index*, various issues; NEA Research, *Estimates of School Statistics* data file.

ATTACHMENT C

TABLE 5. STATE AVERAGE TEACHER SALARIES AS A PERCENT OF U.S. AVERAGE, 1973-74 and 1983-84

State	Classroom teacher salary as % of U.S. average 1973-74	Classroom teacher salary as % of U.S. average 1983-84	Percentage point change in teacher salary as % of U.S. average 1973-74 to 1983-84
1	2	3	4
Wyoming	89.9	111.3	21.4
Alaska	145.4	166.1	20.7
Michigan	115.7	131.1	15.4
North Dakota	78.6	92.5	13.9
Kentucky	77.0	89.8	12.8
Oregon	92.1	103.7	11.6
Colorado	94.0	104.0	10.0
New Mexico	85.2	94.3	9.1
Texas	82.8	91.3	8.5
Minnesota	102.8	111.2	8.4
Idaho	76.6	84.6	8.0
Washington	104.8	112.5	7.7
Oklahoma	76.4	84.0	7.6
Hawaii	103.1	110.6	7.5
Dist. of Columbia	118.1	125.6	7.5
Utah	84.8	92.0	7.2
Kansas	82.5	89.0	6.5
Montana	87.5	93.8	6.3
Rhode Island	105.8	111.9	6.1
Arkansas	72.6	76.9	4.3
Wisconsin	100.5	104.5	4.0
Ohio	93.7	97.3	3.6
West Virginia	77.1	79.4	2.3
Pennsylvania	101.3	103.5	2.2
Louisiana	85.0	86.7	1.7
Mississippi	70.6	72.2	1.6
Arizona	96.7	98.1	1.4
Indiana	97.3	98.0	0.7
Maryland	108.9	109.4	0.5
Connecticut	102.4	102.7	0.3
Nebraska	85.1	85.3	0.2
South Carolina	79.3	79.5	0.2
Iowa	91.4	91.5	0.1
South Dakota	75.2	74.8	-0.4
Missouri	88.4	87.7	-0.7
Tennessee	82.0	81.3	-0.7
Massachusetts	103.2	102.2	-1.0
Vermont	82.9	81.4	-1.5
California	121.6	119.9	-1.7
Virginia	92.0	90.2	-1.8
New York	124.0	121.5	-2.5
Georgia	86.9	84.0	-2.9
Nevada	107.4	104.5	-2.9
Alabama	85.6	81.7	-3.9
Florida	92.7	88.8	-3.9
Illinois	111.2	106.0	-5.2
New Jersey	110.4	104.7	-5.7
Maine	85.7	78.7	-7.0
Delaware	104.9	95.0	-9.9
New Hampshire	89.2	78.9	-10.3
North Carolina	94.9	81.8	-13.1

Note: Detail may not add to total due to rounding.

Source: NEA Research, *Estimates of School Statistics* data file.

Statement of

Gale Cincotta, Chairperson

National People's Action

to the

Senate Finance Subcommittee on Taxation and Debt Management

Hearings on: Fringe Benefits

Held on: July 26, 27, 30, 1984 in Washington, D.C.

National People's Action (NPA) is a coalition of 300 church, community, and senior citizen groups. With affiliates in 38 states, NPA represents the concerns of low and moderate income people, the majority of whom are working class, across the entire nation in their fight for economic survival.

For the past year, NPA has been actively opposing the proposed taxation of employee health benefits. During this time NPA canvassers have spoken with nearly 200,000 voters in the metropolitan Chicago area alone, the majority of them recipients of some form of medical benefits through their jobs.

After paid vacations and holidays, health insurance is the most widely offered employee fringe benefit, and it is without a doubt the most essential to the well-being of the average worker. Given the cost of health care today, one major illness could wipe out a family's entire life savings. Yet the cost of individual health insurance policies is prohibitively high--as evidenced by the family in Oak Forest, Illinois, who told an NPA canvasser that they were forced to drop their private health plan because they could no longer afford the $4,000 per year premium. Not covered by any group plan through work, they had to gamble that they would remain healthy!

The income level at which a family is considered to be "middle class" nowadays is approximately $24,000 per year; a $4,000 insurance premium--not unusual for a family of four--represents <u>one-sixth</u> of this yearly income. It is not hard to unders tand how a working class couple with children,

struggling to make ends meet as it is, would be forced to risk going without insurance at all rather than pay such a large chunk of their sorely stretched budget to private coverage.

Because employer paid health insurance plans are group plans, they are more cost effective than individual policies, so that even in cases where the employee pays a portion of the premium it is at a rate which he or she can afford. Employee health benefits have enabled the majority of workers to receive insurance coverage which they could not afford to pay for on their own.

There are some people, however, including some members of Congress, who feel that it is the widespread availability of insurance which has led to the incredible rise in health care costs in recent years. They argue that people use the health care system, and particularly some of the expensive, modern technology, because they do not have to pay for it--as if people were regularly scheduling open-heart surgery for their vacations or popping in for CAT scans for their weekend fun! People do not deliberately become ill, and to blame the patient for the cost of his/her treatment is both callous and stupid.

It is clear that employer provided health plans fill a great need in our society today, and should be encouraged whereever possible. Without such widely available coverage adequate health care would be a luxury of the rich.

The question, then, is how the tax system can encourage the

availability and use of these plans. Treating these benefits as taxable income would certainly not encourage them, and in many ways would serve to discourage both the employer and the employee from participating in such plans.

Studies have indicated that such a tax would mainly fall on families earning less than $35,000 per year--those least able to afford an increase in their taxes. As the following table shows, taxation of health benefits would add a significant amount to the average worker's annual tax bill.

Taxable Income	Current Tax	Tax Bracket	Additional Tax*
$15,000	$1680	11%	$294.00
$20,000	$3760	18.8%	$353.00
$25,000	$5371	21.5%	$404.00
$30,000	$7182	24%	$451.00
$35,000	$9219	26.3%	$494.00
$40,000	$11,419	28.6%	$537.00
$50,000	$16,306	32.6%	$612.00

*Based on a group policy for a family of four with Aetna Life and Casualty with a monthly rate of $315.00 Calculations are based on proposals contained in S.640, introduced for the Administration by Senator Dole.

Taking three hundred dollars from a family of four trying

to survive on $15,000 per year is the same as stealing food from their table. Many people have told NPA canvassers over the past year that such a tax increase would be a significant burden, and would tempt many of them to reduce, or even drop, their insurance coverage rather than pay the additional tax.

Employers, too, would be discouraged from even offering such plans to their employees if they were taxed as income. The cost to the employer would rise immediately as he would be required to pay FICA taxes on his contributions to employee health plans. Plus they would be faced with demands for increased wages by their employees to cover the tax. A union negotiator in Elmhurst, Illinois has stated that if health plans became taxable to the employee, for every $1.00 in additional income taxes paid by the union members he would demand $1.33 in increased wages--just to bring back the buying power of the employees to the level it was at before the tax! The temptation would be very strong, indeed, for the employer to discontinue any health plan offered to the employee.

Rising health care costs are a serious concern in this country, but the taxation of employee health benefits will not control them. Indeed, such a tax may very well aggravate the problem even further. People without adequate health insurance are likely to delay treatment of health problems until the symptoms become unbearable--in other words, to the point at

which the disease is more difficult, and hence more expensive, to treat. Preventive care coverage is likely to be the first coverage dropped by an employee seeking to avoid paying higher taxes, and yet it is good preventive care which is the best way of keeping people healthy, and health care costs down.

Put simply, Congress should do all in its power to encourage employers to offer health benefits to their workers. The best way to do this is to VOTE AGAINST any proposal to tax any part of these benefits as income.

Thank you very much for this opportunity to present this statement to the Committee.

-End-

STATEMENT OF THE NATIONAL RESTAURANT ASSOCIATION
ON TAXATION OF FRINGE BENEFITS
FOR THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
HEARINGS, JULY 26-30, 1984
WILLIAM P. FISHER, EXECUTIVE VICE PRESIDENT

The National Restaurant Associaton's view on fringe benefits are presented here on behalf of our more than 10,000 members who own and operate over 100,000 foodservice establishments, and on our own behalf as a trade association.

We appreciate the action of Chairman Packwood in convening these hearings and providing us the opportunity to state our views.

Within the foodservice industry, many employers both small and large offer health insurance plans, life insurance coverage, retirement and pension plans, and other important fringe benefits to their employees. As an association, the National Restaurant Association does the same, partly as a means of attracting key employees, and in order to satisfy the sense of responsibility the association has for the well-being of its employees.

The Chairman has asked that certain general questions be addressed. We would like to provide an answer to each question.

(1) Should the tax law encourage employers to provide fringe benefits, and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

The current tax system, whereby certain fringe benefits are non-taxable, has served us well and has proved to be of immense value to our society and great advantage to the federal

government. Under present tax law concepts, health insurance, life insurance, and retirement plans are available to a large proportion of Americans. In no conceivable sense could the U.S. Government provide a comparable level of benefits to workers, nor would as many workers choose to provide proper coverage for themselves and their families if employees were forced to purchase these benefits on their own. Further, group rates may not be available where participation is low.

Congress, through the tax code, should continue to encourage private sector employers to provide fringe benefits. The deductibility of the cost by the employer and the non-taxable nature of the benefits to the employee have proven to be adequate incentives to encourage the provision of benefits.

Health and life insurance coverage should continue to be encouraged through federal tax policy. A variety of retirement options should be encouraged, as is currently done with the various defined benefit and defined contribution plans permitted by the code. Finally, tax policy should encourage employers to provide for the personal development of their employees. With respect to this latter point, the National Restaurant Association supports tax incentives for employer-sponsored educational assistance. We hope that Congress will consider retroactively reinstating the non-taxable status of educational benefits.

(2) What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

Congress and the Internal Revenue Service have encouraged the provision of benefits on a non-discriminatory basis. To a point, non-discriminatory requirements are fair; however, there are

important reasons why Congress and the Service should not become involved in setting restrictions or conditions on the level or distribution of fringe benefits.

The Deficit Reduction Act of 1984 requires taxation of certain benefits which are not made available to all employees on substantially the same basis. This requires an estimation of the market value of the benefit in order that income can be recognized by the employee. The estimation of market value could in some cases be quite speculative and not easily verified. For example, if the non-discrimination requirement were extended to company provided parking benefits, how would the value of parking be computed if the company owned the lot rather than rented parking facilities? Would the value of parking to the employee be the cost of parking a few blocks east in a commercial lot? What if there were a less expensive lot a few blocks away to the west? Would employers, to the further detriment of the inner city, seek out less expensive suburban office space so they could afford to offer parking to all employees? And should the tax code have this kind of effect on business practices?

In addition, some benefits cannot or should not be provided without distinctions based on salary level. Life insurance coverage is based on salary level in order that the insured's survivors may sustain their standard of living beyond the breadwinner's death. Thus, highly compensated employees need greater amounts of insurance. Congress determined in 1964 that the excess cost of premiums over and above that necessary to purchase $50,000 of coverage were taxable to the insured employee. This

$50,000 level has not been increased since 1964. We urge Congress to increase the maximum non-taxable coverage level to compensate for the effects of inflation, or to eliminate altogether the requirement that the value of employer-paid premiums be taxable to the employee.

Finally, we believe that conditions and restrictions on the nature of fringe benefits which may qualify for preferential tax treatment should not be discussed as a means for raising revenue. Any tax revenues from revisions in the employee benefits area would not be likely to offset losses from government expenditures for social programs necessary to provide a "safety net" in the absence of substantial employer provided coverage. Whatever the "cost" to the federal treasury of the existing tax incentives for employee benefits, it is far outweighed by the societal benefits reaped.

(3) Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

Where an employer provides benefits such as health and life insurance, the availability of group rates ensures that younger workers and workers at the lower end of the income scale will be able to receive a level of coverage that they could otherwise not afford. Similarly, older workers and those most likely to have health problems are able to receive coverage at a reasonable rate.

Thus, although the distribution of benefits is not necessarily the same across all seniority or income levels, the existence of those benefits is of undeniable value to the recipients and to society in general.

(4) Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross section of employees at a lower total cost than if the Government provided the benefits directly, if the employers provided the benefits on a taxable basis, or employees purchased these benefits on their own?

We believe that private sector employers have developed an excellent system for providing employee benefits, and that the federal government could not approach the level and breadth of coverage which is currently provided.

If employers provided benefits only on a taxable basis, coverage would not be the rational economic choice for certain employees. Those who are young and in good health would choose low levels of medical coverage; those who have no dependents would choose to forgo life insurance. The lower number of employee participants would result in higher rates for all participating employees. Health insurance rates for older workers with a greater likelihood of health problems would increase, as would life insurance for workers with dependents and financial obligations.

For the same reasons, employees would almost certainly not purchase the proper level of coverage on their own if tax incentives did not exist for employer provided coverage.

(5) How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

The existence of tax incentives for benefits is an important factor in the continuation of benefit programs for the National Restaurant Association and its member restaurants. If employees were taxed on the value of employer provided life and health insurance benefits, for example, some classes of employees would begin to demand cash wages instead. This would lead to an

erosion of the entire employer sponsored program for the provision of benefits.

(6) Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

While applicants for employment may shop for better tax-free benefits packages, the organization offering the best benefits will be an economically healthy and better managed business entity. A good employee benefits program builds a secure and stable workforce. As a result, our society as a whole is better off.

NRECA NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION
1800 Massachusetts Avenue, N.W.
Washington, D.C. 20036/202-857-9500

August 13, 1984

The Honorable Bob Packwood
United States Senate
Committee on Finance
Subcommittee on Taxation and
Debt Management
SD-219 Dirksen Senate
Office Building
Washington, D.C. 20510

Hearings on Fringe Benefits
Press Release No. 84-149

Dear Senator Packwood:

On behalf of the National Rural Electric Cooperative Association and its members I am submitting today with this letter a written statement giving our views on current fringe benefits and their desirability as a means of promoting the welfare of our working and retired citizens. Our perspective is that of a trade association providing and administering employee benefits for its employees and employees of its members for some 40 years. I hope they will be of some help to you in developing a fair hearing record.

We will also take this opportunity to express our thanks for your foresight and thoughtfulness in calling these hearings. You have on many past occasions stood firm in your support for fair and equitable benefits for employees. We fully believe these hearings will lay a record to correct misunderstandings by others (including, apparently, some members of Congress) of the purpose and necessity of welfare and pension benefits. We support what you are doing and will take an increasingly active role in the legislative process regarding employee fringe benefits.

Cordially,

M.D. Wood

Martin D. Wood - Director
Retirement, Safety & Insurance

Enclosure

NRECA NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION
1800 Massachusetts Avenue, N.W.
Washington, D.C. 20036/202-857-9500

STATEMENT OF

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

ON FRINGE BENEFITS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

SENATE COMMITTEE ON FINANCE

AUGUST 13, 1984

Mr. Chairman and members of the Subcommittee.

My name is Martin D. Wood. I am the Director of the Retirement, Safety and Insurance Department of the National Rural Electric Cooperative Association (NRECA) and the Administrator of the various welfare and pension programs sponsored by NRECA for its members. NRECA is the national service organization of the approximately 1,000 rural electric systems operating in 46 states. These systems bring central station electric service to approximately 25-million farm and rural individuals in 2,600 of our nation's 3,100 counties. Our various programs provide pension and welfare benefits to over 40,000 participants in those localities.

These hearings have been called at a very opportune time. Congress has just passed, and the President signed, the Deficit Reduction Act of 1984, which is intended to make a "down payment" on our huge budget deficits. As Congress faces the difficult task

of reducing the budget deficit, we expect it will rethink many of the policies that have until now shaped our tax laws. There will be great pressures to abandon previous, long term commitments and seize upon shortsighted plans to raise revenues without thought to the long term consequences to the nation. We are aware that the treatment of employee benefits is one of the policies that has been suggested for re-examination, especially because of the large amounts of revenue involved.

Employer provided benefits serve essential social purposes. They provide medical care when the worker or his family is sick, income when he is disabled, a pension when he retires and an estate to his family when he dies. They collectively involve very large amounts of money because they assume great social obligations. Any attempt to change the present treatment of benefits for short term revenue gains will have a drastic affect on the provision of these benefits. These are issues of long term consequence; changes should not be made for merely short term gains.

Today it is difficult to recall the state of the nation's rural citizens in the 1930's and 1940's. Social Security was a new, radical innovation and employer provided retirement plans were almost unknown for rank and file employees. Health insurance (and indeed health care) was not a major concern of government or employees. Basically, rural Americans were left to fend for themselves so far as life, health, disability and retirement needs were concerned. As rural electric cooperatives were formed throughout the United States in the 1930's and 40's they needed to secure insurance, both

to protect themselves and their employees from economic loss covered by injury or sickness. Because of the newness of the industry and because the cooperatives were located in rural areas, rural electric cooperatives had great difficulty in obtaining insurance. The major insurers, whose business was predominately urban, considered rural electric cooperatives as "farmers playing with electricity." The failure of the insurance community to respond to their needs was one of the principal motivations for the formation of NRECA. We are proud to say we have come a long way from the situation in those early years. Employer provided welfare and pension benefits now provide for the rural electric worker and his family upon illness, disability, death or retirement. The basic benefit programs discussed below are provided to most rural electric cooperatives through NRECA.

The typical employee of a rural electric cooperative is a 41 year old electrical worker living in a rural community. The pay standards are moderate with the average pay approximately $22,700 but the work involves a degree of risk higher than the norm for injury or death.

Medical insurance is provided to rural electric employees to cover expenses above deductible and co-insurance amounts. These coverages are essential to the participant and family for financial security in the event of illness or injury. These benefits are available to all employees of the cooperative without discrimination.

Two long term disability programs are offered: One which provides 50 percent of salary without offset for Social Security disability benefits and one which provides 66 2/3 percent of salary

but offsets for Social Security. In the context of electrical workers, disability benefits are particularly important because of the nature of the occupation, which involves a relatively high risk of serious job related injury. These benefits are available to all employees at the cooperative without discrimination.

Life and Accidential Death and Dismemberment insurance is provided in multiples of one to five of annual earnings. The typical employee is insured for approximately $53,000 or about two and one-third times salary. This insurance accounts for a major portion of the typical employee's estate and thus is a primary source of support for the employee's family in the event of death, often serving to preserve the family unit. These benefits are available to all employees of the cooperative without discrimination.

In addition to the basic care welfare benefits described above, some cooperatives have small amounts of short term disability, dental, vision care and business travel insurance which serve those needs.

Pension benefits are provided through a defined benefit and a money purhcase pension plan. These programs are available to all employees of the cooperative without discrimination. The typical employee will receive 43 percent of his salary from the defined benefit plan as a retirement benefit. In addition the employee may receive benefits accumulated from the money purchase plan.

Benefits are Distributed Efficiently and Effectively

Rural electric cooperatives are tax exempt cooperative organizations that are familiar with the advantages of the cooperative principle. It is not surprising that most rural electric cooperatives

have elected to cooperatively pool their resources through NRECA to utilize their collective purchasing power. The benefits of the welfare programs are cooperatively provided through a common trust that is tax exempt under I.R.C. section 501(c)(9). Pension benefits are provided through two master multiple-employer trusts as defined in I.R.C. section 413(c). The group and master trusts exist to provide services for the insured individuals in the form of optional benefits at the lowest possible cost. The group trust utilizes self funding of its welfare benefits (except life insurance) to optimize the return to the cost of the benefit and reduce the cost of outside services to the lowest prudent level. The welfare and pension programs provided through NRECA are self-administered by professional staff. The cooperative nature of the programs encourages the cooperatives to reduce cost and prevent injury and disability by peer pressure, educational programs and professional counseling. In addition, various methods of cost sharing and provider auditing helps keep down cost and over utilization of benefits.

Benefits are Distributed Fairly Among Plan Participants

The welfare and pension benefits are distributed just about evenly across the employee population. Health benefits are provided on the same basis to all participants at the time of need. Disability and life insurance benefits are provided as a common percentage of compensation to all employees. Retirement benefits are similarly provided to all employees as a percentage of compensation, factored by the length of service.

The benefits provided are adequate, but not by any standard excessive. They are designed to provide for the reasonable replacement of lost earnings or reimbursement of expenses.

Tax Incentives Are Important in Encouraging Employee Provided Benefits

Among employees of rural electric cooperatives, benefits constitute approximately 37 percent of gross salaries paid to employees. This 37 percent figure includes the cost of all employee benefits, both those that have incentives and those that do not. When vacation, sick leave, holidays, and other non-tax incentive benefits are excluded we find that tax incentive benefits contribute only 26 percent of gross salaries paid to employees. Of this 26 percent, approximately 16 percent consists of tax deferred contributions to pension programs. Approximately 10 percent consists of truly tax exempt medical and other similiar benefits. Because the great bulk of the tax favored benefits provided to rural electric employees are pension and welfare benefits our discussion will be primarily directed towards those programs.

Rural electric cooperatives have absolutely no tax motivation themselves for providing any type of employee benefits. Rural electric cooperatives are almost all tax exempt under I.R.C. section 501(c)(12) and since tax exempt, derive no tax advantage from the provision of employee benefits. Employee benefits are provided because they serve a social purpose - the protection of the employee's health, and the provision for disability, death or retirement.

Pension and welfare benefits are provided by rural electric cooperatives as a part of an unwritten but long standing social con-

tract among government, employers and employees whereby Social Security, medicare and medicaid are provided by government as a mandatory, basic portion of employee protection. A second level of protection is provided by employers on an optional basis, which government encourages by favorable tax treatment. The final portion is provided by employee savings, some forms of which are also encouraged by the tax laws. It is the employer provided benefits to which these hearings are primarily addressed.

Of course there is a revenue cost to the Treasury when benefits are provided to employees on a tax favored basis. The question is whether the cost of forgone revenue equals the social benefit derived from those forgone revenues. There is no doubt in our minds that the revenue cost of tax favored fringe benefits is more than adquately paid for by the broad participation of rank and file employees in essential welfare and retirement plans. Most of the participants in our programs are blue collar workers, there are relatively few management level or highly compensated employees. It is simply not realistic to expect the average employee to forego his immediate income needs to set aside the substantial sums needed for retirement or for his health and disability needs. It is our experience that the vast majority of employees do not protect themselves against these eventualities unless the coverages are provided by the employer. A shortsighted philosophy often prevails in which the employee elects to "take home" pay rather than prepare for contingencies of this nature. It is the employer who recognizes the need and makes the allocation of resources to employee benefits. Tax incentives represent an essential cost sharing between government and private industry to encourage the maximum availability of these benefits.

Recommendation for Public Policy Debate

In closing, we would like to raise several issues deserving of further consideration by the Congress and the Administration as debate on the appropriate tax treatment of fringe benefits evolves.

First, and foremost is the need for a predictable and consistent policy on the tax treatment of the benefits discussed in these hearings. What was once a ten or fifteen year review and reform of the tax law has now become an annual affair. Frequent changes in the laws affecting these benefit plans adds significantly to the costs of their administration and makes planning for future contingencies difficult. If our 1,000 member cooperatives each administered their own benefit plans, we have no doubt that many would have terminated them in the face of these yearly changes. This is frequently the choice many small and medium sized businesses are faced with.

Second, we would like to state again that our benefit plans are meeting the economic security needs of our large rural electric family across the nation. When no one else would meet the light and power needs of these areas, the rural electric cooperatives did. Before there were sponsored plans to care for the disabled employee, plans to provide for his loved ones in the event of death, or plans to provide an adequate income during one's golden years, the rural electric cooperatives offered this protection to its employees. These benefits are non-discriminatory, offering a high quality of benefit at the lowest possible net cost. If we were not to provide these plans for the basic economic security of these 40,000-plus participants, there could be little doubt that each Member of Congress would be petitioned for similar protection to be provided by the Federal government.

With regard to specific policy changes, we would like to recommend three proposals for your consideration in the area of salary reduction money purchase pension plans, the $50,000 limitation on the tax-free treatment of employer paid life insurance premiums, and proposals to limit the amount employers may pay in health insurance premiums.

Our national pension policy has encouraged individuals to save for their retirement and has sought to make such pension benefits available to a broad spectrum of Americans. In furtherance of that policy, the Revenue Act of 1978 added Section 401(k) to the Internal Revenue Code permitting profit sharing and stock bonus plans to adopt special salary reduction features that encourage employee savings. However, under present law a plan that is not a profit sharing or stock bonus plan can not provide such a feature. The exclusion of money purchase pension plans has denied the benefits of the increasingly popular salary reduction savings programs to employees of nonprofit organizations and to employees of for-profit organizations that have no current or accumulated profits. Apparently, it was simply a matter of oversight that Congress did not extend the availability of salary reduction arrangements to money purchase pension plans. The Treasury Department has twice supported such legislation in public testimony on June 14, 1984 and September 21, 1983 before the Ways and Means Subcommittee on Select Revenue Measures. It is our hope that Congress will soon adopt legislation to promote regular retirement savings through salary reduction arrangements under a money purchase pension plan.

The present $50,000 limitation on the amount of employer paid life insurance premiums that is tax-exempt was first enacted by Congress in 1962. Since that time the cost of living has continued to increase significantly, reducing this benefit to only 29 percent of its value in 1964 or $14,560. As mentioned earlier, the average coverage for our employees remains at roughly two and one-third times annual salary or $53,000 per employee. It is our recommendation that Congress review the present limitation to develop a means of preserving the current dollar value of protection provided.

Finally, we would like to speak against proposals that have circulated over the last year to limit the tax-free treatment of employer-paid health insurance premiums. It has been our experience that the appropriate level of health insurance coverage is best left to the individual cooperative's management in consultation with their employees. Differences in geography, availability of health services, and job related risks would make a national standard difficult to reach and unwieldly to administer. The record of our members in developing a level of coverage adequate to meet their employees' needs and in pioneering efforts to control health care costs has been impressive. We urge the Congress to consider the use of flexible spending accounts which encourage employees to hold down the costs of non-taxable benefits like health insurance, rather than impose an inequitable and unworkable cap on those benefits.

This concludes our recommendations for public policy debate and we remain available to provide this subcommittee or any other body with any further information that may be helpful in deliberations on these important concerns.

NORTH CAROLINA Natural Gas CORPORATION

DRAWER 909 • 150 ROWAN ST. • 483-0315
FAYETTEVILLE, NORTH CAROLINA 28302

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, DC 20510

Dear Mr. DeArment:

Congress will create more problems than it will solve if it continues its attempts to tax employee benefit plans.

Employer plans provide benefits more efficiently and at a lower cost than the federal government could, in our opinion. Without our benefit plans, employees would be more dependent on the federal government. And it is more practical for private companies to provide these plans.

So-called tax-free benefits, like group health insurance plans, in which an employer receives tax deductions for its contribution and the employees are not taxed on premiums that are paid by the employer, comprise just 5.54% of employee compensation at North Carolina Natural Gas Corporation.

Our employee benefits do not discriminate in favor of the highly compensated, but the benefits provide a wide range of protection to all workers. Workers at all wage levels -- not just highly compensated workers -- are covered by our benefit plans. Some 95% of our 430 employees earn less than $30,000 a year. These employees are covered by optional group health, life, and AD&D programs, and 100% are participants in the company's pension plans and long term disability plans. Pensions are tax-deferred, of course.

The tax-free status of some employee benefits not only protects employees from catastrophic health care costs, but it also helps to ensure that social goals are met. Employees likely would not purchase educational and insurance-related benefits on their own if they were compensated in cash rather than benefits. If benefits were taxable, our employees would ask the company to give them more cash instead of giving them the benefits. The tax-free status was intended to encourage such employer furnished benefits.

If the government takes over benefits from private employers, it will be hit with enormous costs and everlasting contention. Our life, health, and long term disability plans relieve the government of a substantial economic burden. The government will have to increase Social Security and welfare benefits if we cut back on these benefits.

Tax-free benefit plans are integrated into the nation's compensation structure. Their taxation would destroy the differential advantage of smaller employers and create a tremendous uproar among influential employee groups of the larger employers. It would be the most unfair tax of all -- hurting, mostly, the lower paid people. And, in short, "more squawks than feathers".

Sincerely,

William L. Aycock
Personnel Director

raj

The Nature Conservancy

1800 North Kent Street, Arlington, Virginia 22209
(703) 841-5300

STATEMENT OF THE NATURE CONSERVANCY
ON EMPLOYEE BENEFITS SUBMITTED TO THE SENATE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT, SENATE COMMITTEE ON FINANCE

August 13, 1984

The Nature Conservancy is a non-profit corporation which employs more than 500 people in many different kinds of jobs throughout the United States. In order to compensate our employees equitably and to be competitive with other employers, we provide a broad program of employee benefits which we review periodically. We believe that such a program is an important part of a total compensation plan which gives an employer the opportunity to provide direction and guidance to employees to anticipate their needs and plan for their long-term financial security. Employers who emphasize salary to the exclusion of benefits which are not legally required are missing this valuable opportunity.

Because our employee group is so diverse, a broad based program of employee benefits is necessary in order to meet all needs. Some of the benefits we elect to provide are so basic that virtually all employees perceive the need and are enrolled. Examples are health and dental insurance, life insurance, accidental death and dismemberment insurance, travel accident insurance, long-term disability insurance, and our savings and retirement plan, which is governed by section 401(k) of the Internal Revenue Code. All of these plans make it possible for our employees to use a portion of their total compensation to protect themselves from the effects of expensive emergencies and the loss of earnings, whether they come as the result of an unplanned event, such as disability, or from their anticipated retirement. By encouraging employees to take responsibility for themselves and by requiring them to use self-determination in saving and investing for retirement income, we believe we are fostering self-reliance and reducing the chances that Conservancy employees will have to rely on health and welfare benefits funded by taxpayers' dollars.

The fact that these benefits are tax-free helps make them attractive to employees and provides an incentive for them to take advantage of the plans we provide. All employees need these benefits and, if the incentive to take part of their compensation in the form of benefits is removed, many employees might elect to spend their salary dollars on items which provide more immediate gratification.

In addition to those benefits which all employees need, the Conservancy also provides benefits which meet special needs. These include educational assistance for job-related training or study, student loans for post secondary education for employees and their dependents, sabbatical leave, and a tax-deferred annuity plan which encourages employees to save for major purchases rather than to incur debt. These benefits have allowed us to encourage employees to improve their knowledge and skill level and to be thrifty.

A recent survey of employee needs and preferences revealed that our employees are enthusiastic about the concept of flexible benefits, which would allow them to design their own benefits program around their individual situations. This would allow us to provide some additions to our plan, such as child care for families where both parents are employed, and to introduce some diversity into the package by permitting employees to select the level of life or health insurance best suited to their needs. The Conservancy is committed to designing and implementing such a plan for its work force in 1985.

The Nature Conservancy believes that by providing a well-designed program of employee benefits, employers foster an awareness of individual responsibility and provide opportunities for employees take care of themselves and their dependents. The elimination of incentives to employees to participate in employer-sponsored benefits plans would almost surely result in lower levels of participation and increased reponsibility on the part of the federal, state, and local governments to provide for employees who do not provide for themselves. We urge the Congress to encourage employee participation in benefits, by continuing their tax-free status, for the public good.

NCNB National Bank
Charlotte, NC 28255
Telephone 704 | 374-5000

July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Arment:

Consistent with your requirements I am submitting this letter and the attached statement to be included as part of the record on the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Gary D. Daniel
Vice President and Trust Officer
Corporate Trust Division

GDD:csw
Attachment
1999S

Submitted as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Gary D. Daniel

My firm is the Corporate Trustee for approximately 1,000 employee benefit plans representing a broad cross-section of businesses and industries located in approximately 25 states. These plans cover over 1,000,000 participants and beneficiaries and represent a broad-based constituency of Middle America.

I believe it is important for the Congressional Records to reflect the strong prevailing attitudes of these participants and beneficiaries and those of us who directly provide services for these plans, with reference to important issues effecting private employee benefit plans.

Therefore I respectfully submit the following statements on behalf of the individual participants and beneficiaries of the private employee benefit plan system that my company represents.

1. The private employee benefit plan system provides a useful social and economic purpose by forming the vital third leg of a retirement security objective that includes social security and private savings. True social and economic independence for our citizens in retirement cannot be achieved without congressional support and nourishment of all three of these important sectors.

2. The private employee benefit plan system touches all income levels but is counted on most heavily by rank and file employees, who have less means to accumulate personal savings for retirement.

3. Plan sponsors will not and cannot maintain adequate employee benefit plans for their employees without the needed tax incentives from Congress.

4. IRAs are a welcomed means of encouraging greater personal savings by all individuals toward retirement but again, personal savings has to be supported by a sound social security system and private employee benefit plan system if meaningful retirement security is to be achieved by the average working American.

5. These issues are paramount in the minds of all employees covered by private employee benefit plans and has "grass root" support that is far reaching across America.

1995S

New England Life

New England Mutual Life Insurance Company
501 Boylston Street, Boston, Massachusetts 02117
617-578-2658

GORDON D. MacKAY, CLU
Senior Vice President

1984 AUG -6 AM 10:46

July 31, 1984

The Honorable Bob Packwood
U.S. Senate
259 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Packwood:

New England Life Insurance Company commends you and your Subcommittee members for your efforts to bring the issue of taxation of employee benefits to the public's attention through hearings on July 26, 27 and 30. We would like to add our voice in support of the broad social purposes served by employee benefits.

There are some primary social dangers against which most people feel protection is essential: high medical costs; loss of income due to disability or death; and the potential for poverty in retirement. New England Life is proud of the quality of its employee benefit program, both as an employer and as a provider of life and health insurance coverage to other employers. We continually endeavor to build fairness into our program by providing benefits to all employees, not just to the high paid. Our pensions are adjusted to meet the burdens of rising inflation. We assist our employees in attaining economic security by helping them meet medical expenses and income-loss needs caused by disability or death.

The federal government cannot meet fully these needs for every citizen. As long as the private sector provides the necessary protection for its employees, the government can fulfill its promise of taking care of the truly needy.

The private sector has built an effective and efficient arrangement to cover the needs of employees through its benefit programs. Employee needs are there and they must be met. If the private sector is not encouraged to meet those needs, the government must. However, we know the government's burden becomes the public's burden.

Some protection is provided to workers through the Social Security System. However, we were all aware of the financial strains on the System despite the major changes that were made earlier this Congress. Employers recognize the need to supplement Social Security benefits and attempt to do so through employee benefit programs. For employees whose costs for benefits are paid largely by the employer, taxation of benefits would constitute a cut in pay. This almost certainly would lead a significant number of workers, particularly the lower paid, to drop their insurance coverage. The resulting substantial medical expenses would become the public's burden. Some would create a greater demand on the Social Security system. Some would result in bad debts for hospitals to cope with. Many more would be forced into Medicaid.

The system works well now. It should not be systematically dismantled for the sake of greater tax revenues. By funding through the private sector, we not only relieve pressures on the Social Security system, we enhance the economy. A new tax program on fringe benefits would drive up the cost of medical care, hit hardest those with the least resources and ultimately be unsuccessful.

The private sector can and is willing to do its part of help employees. Tax incentives for employer-provided benefits are a means of encouragement to do more. The price to our nation of removing those incentives is far greater than the revenue that could be gained without them.

Very truly yours,

Gordon D. MacKay

/lc

STATEMENT OF

VICKIE L. FISHER

SECRETARY

NEW MEXICO TAXATION AND REVENUE DEPARTMENT

CONCERNING S. 463

LIMITING STATE SEVERANCE TAXES

JULY 24, 1984

SUBMITTED TO THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

OF THE

SENATE FINANCE COMMITTEE

I appreciate this opportunity to express my opposition to S. 463 and to the general proposition that state severance taxes should be limited. I will confine my comments to a few points.

S. 463 seeks to limit the amount of severance taxes on crude oil, natural gas and coal transported from a producing state to the costs incurred by the state which are directly attributable to the production activity. This is to be done in the name of reducing "fiscal disparity between States".

The concept of "fiscal disparity" itself is illusive. In this context, it seems to imply that all of the states are equally endowed, except in one respect -- that nature has perversely concentrated deposits of the major energy resources in a few of the states. Because governments raise revenues from the economic base

39-707 O - 85 - 71

available to them, these few states somehow have an "extra" source of taxation.

This is an obviously faulty premise. States are not equally endowed. In fact we all take great pride in the diversity of this great land. Our differences are one of the major reascns for the success of our federal form of government. The states are the laboratories in which great social and political experiments are first undertaken.

If this bill's fundamental concept were to be accepted, wouldn't we New Mexicans be justified in complaining about Minnesota's taconite deposits, Iowa's magnificently productive farmland, Florida's endless beaches, California's "Silicon Valley" and New York's financial industry? This could only lead to more and more extensive and intrusive federal control over state revenues. Ultimately this process would convert the states into mere administrative units of the federal government.

Another apparent assumption of S. 463 is that there are no forces restraining the states fortunate enough to have deposits of energy resources within their borders. The market forces of supply and demand do exist and do impose very real limits on any state's ability to tax these minerals.

A severance tax raises the producer's cost for bringing a mineral to market. In a freely operating market, such as the international market for oil, price is set not just by the producers but by the interaction of buyers and sellers. When prices are set by market forces, no individual producer can simply raise his own prices to recover the full cost of severance taxes paid. The producer winds up bearing

the cost of the tax, not the consumer. Higher severance taxes, other things being equal, mean lower profits for producers. That creates incentives for the producers to shift operations to states with lower taxes.

States compete keenly for industries and jobs. Governors and legislatures are well aware of the negative consequences on investment and jobs in their states from tax rates that are perceived to be too high. Industry representatives are not shy about pounding this message home during legislative sessions. As a result, states take great care to maintain competitive tax structures.

S. 463 contemplates restricting a state's severance taxes to a level equal to the costs incurred by the state directly attributable to the production activity. This will guarantee an expansion of the Attorney General's staff, more courts and prosperous times for the accounting and legal professions. Defining "directly attributable" costs will provide endless subject matter for litigation. Furthermore, we would probably be shooting at a moving target -- technology changes. We keep learning more about our environment -- how yesterday's events in Illinois affect the people in New York today.

We have had some experience with a related concept in New Mexico. For many years New Mexico's severance tax on copper, gold and several other minerals tried to determine a value for these minerals when they first achieved marketable form. This involved the Taxation and Revenue Department and the several producers in non-stop battles over definitions of what costs could be considered "directly attributable" to the mining activity per se. Even worse, the answer for one company did not suit another. The companies are organized

differently. They use disparate mining and processing techniques. Naturally the accounting systems varied also. We were able to solve this by altering the focus of the tax through corrective legislation this year but this side-stepping of the problem will not be possible with S. 463 because the problem is the bill.

Finally, the whole thrust of this bill is to punish those states which happen to have energy resources for the rapid rise in oil prices over the last decade. Congress has tried several times, and failed on every occasion, to wish away a hard fact of life: energy costs a lot more than it used to. We all have had to make a lot of adjustments in the way we do business, in the way we live. Taking aim at the energy-producing states will not bring back the low prices, the easy times; it will only divide the nation.

Nissan Motor Manufacturing Corporation U.S.A.

Marvin T. Runyon
President and
Chief Executive Officer

July 25, 1984

Mr. Roderick A. DeArment
Chief Counsel
Senate Finance Committee
Subcommittee on Taxation
and Debt Management
Room 219, Dirksen Senate Building
Washington DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Best regards,

MTR/jlt

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management, I urge your continuance of current tax treatment of employee fringe benefits.

Employee benefits provide an effective means of providing financial security for employees of Nissan Motor Manufacturing Corporation U.S.A. This feeling of security, in the event of death or catastrophic illness of the employee or family members, contributes to the productivity of our employee and I am sure it is also a factor in other major corporations in the United States.

In support of my position, Nissan benefits are provided for all our employees and do not primarily benefit higher paid employees. Through May 1984 health care benefits paid for higher paid employees represented less than four percent of total employee health care benefits paid. Our insurance carrier, Metropolitan Life Insurance Company, has more specific data regarding these statistics.

If tax-favored employer sponsored benefits are eliminated, this would create a burden for the majority of Nissan employees. Therefore, I recommend Congress proceed cautiously in making any changes in the private employee benefit plan system.

KHJ:ds

NOMEC, INC.
1674 West Belt North,
Houston, Texas 77043
(713) 932-0653
Telex 790-583

August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg., Room SD-219
Washington, DC 20510

Gentlemen:

This is to address the Public Hearing held on July 26, 27 and 30, 1984 on the subject of Employee Fringe Benefits and Their Taxation. Our office has several benefits which have been taken in to consideration by most employees of this company at the time they were interviewed for their respective positions. These benefits include Life Insurance in the amount of $20,000 and Accidental Death and Dismemberment Benefits of $20,000 for the employee and $2,000 for spouse and $1,000 for children over 14 days old. Also we have the standard Major Medical Expense Benefits of 100% of the first $500 and 80% of the excess after the deductible for any one accident up to $1,000,000 and for other expenses 80% after the deductible to $2,500 and 100% to 1,000,000.

If it were not for these provisions for the employees, many people would certainly be under a hardship throughout the year, especially those with large families. Many people are quite appreciative of these benefits as you can well imagine - they pay for pharmaceutical expenses, surgeries, doctor's visits, etc., as well a having a permanent plan for the future with the provision of the Life Insurance. To charge extra taxes on these

types of benefits would put an even greater burden on the employer than already exits. However, there is little question that the employer is able to provide at a lower cost and with less hassle a better quality service by dealing directly with the insurance companies than if the federal government attempted such. One can just imagine the extra cost of forms, offices, salaries, telephone expense, etc. to have another branch of the federal government trying to provide these same services.

These benefits, by the way, are provided to each and every employee, from the president of the company down to the file clerks and truck drivers - and the benefits begin from the first day of employment. These benefits, in other words, are provided on a purely equal basis - regardless of length of tenure, salary considerations, sex, race or ethnic background, religious affiliation, etc. If these benefits did not exist, it would put a great hardship on any who worked here, for as we all are aware, hospital costs are quite expensive and they do not take into consideration how much money you deposit in the bank.

Private enterprise has provided these services in an efficient manner to its employees for years at no cost to the federal government. In the sense that it is a service it seems unfair to tax the plans so carefully researched and administered in behalf of the workers. It would seem to be more carefully administered than would a governmental program in that there is, at least in our company, one employee who handles each claim for the other employees, and she deals directly with the insurance company. There is very little of the "red tape" involved that would be involved in dealing with the federal government.

The employee needs are there and must be met by someone. If each employer is not encouraged to meet its needs, government must. And we believe, along with many others, that the ultimate price to our nation will be greater.

Very truly yours,

Karen C. Lloyd,
Secretary/Treasurer

/kcl

NCAWA

219 N. BOYLAN AVENUE • RALEIGH, N.C. 27603 • (919) 821-1314

July 23, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Office Bldg., Room SD-219
Washington, DC 20510

Re: Hearing on Taxation of Employee Benefits
July 26, July 27, July 30, 1984

Dear Mr. DeArment:

On behalf of our Association, I wish to make a statement for the record concerning the subject matter of the hearing referred to above.

Some 175 of our member-companies are currently participating in our Association's Group Life/Health/Hospital Plan, with over 1,400 persons enrolled as primary insureds; about half of them also have their dependents insured under the Plan.

Our Plan benefits do not benefit our owners and officers more than they benefit their employees. Each insured person receives exactly the same benefits, including the same amount of Group Term Life Insurance. The same thing is true with regard to benefits for men and women; the benefits are identical.

We believe that Life/Hospital Insurance and other employee benefits are absolutely essential to the welfare and economic security of employees, retirees and their dependents. Many employees cannot afford to pay for good solid benefits and they would certainly suffer if employer-sponsored benefits were driven out of the picture by new taxes on fringes.

So, we further believe that our tax laws should encourage employers to provide fringe benefits. Our present laws ensure that all benefits for employees are distributed fairly, but further tax incentives are needed to encourage more employers to provide fringe benefits for a broader cross section of workers in America.

Those American employers with vision and compassion have built an employee benefit system that is effective and efficient in meeting employees' needs. We need this system in place and working. It is far superior to and more cost-effective than any government program which might replace it. This fact has been proved over and over again in our history. Private Enterprise must be encouraged more than ever to meet the needs of employees. If private enterprise does not do this, the government will have to do it. We all know that, if this turns out to be the case, the price tag will be a great deal higher!

Sincerely,

John C. Gill, Jr.
Executive Vice President

JCG/rr

TESTIMONY OF MR. MONTY BURKE
PRESIDENT, NORTH DAKOTA FARM BUREAU,
McKENZIE, NORTH DAKOTA

TO THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL
TAXATION OF THE SENATE FINANCE COMMITTEE
RELATIVE TO S. 463, A BILL TO RESTRICT
STATE SEVERANCE TAXES ON OIL, NATURAL GAS AND COAL

Hearing Date - July 24, 1984
Submission Date - July 27, 1984

I appreciate the opportunity that you have afforded me to express the concern that our organization has in regard to S. 463.

North Dakota Farm Bureau is a voluntary, non-governmental organization financed by membership dues and organized to provide a means by which farmers can work together to achieve benefits usually denied them as individuals. The 20,095 Farm Bureau member families represent all counties in the State of North Dakota and are an important part of the American Farm Bureau made up of over 3,000,000 Farm Bureau member families from 2,834 counties in 49 states and Puerto Rico, united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement. Farm Bureau is county, state and national in scope and influence and is non-partisan, non-sectarian and non-secret in charter.

Farm Bureau members have banded together to be an effective force in furthering the interest of agriculture as well as the general interests of our total economy.

Our policy positions were developed through a program featuring decisions by members on the county level, meeting to

determine attitudes toward the various issues. These recommendations were then passed by the county Farm Bureau organizations and forwarded to the North Dakota Farm Bureau Resolutions Committee which acted on them and submitted its amended list to the voting delegates of the 41st annual North Dakota Farm Bureau convention. The voting delegates considered, amended and adopted these resolutions as official Farm Bureau policy for 1984.

At our annual convention last December in Minot, ND, our delegates reaffirmed the following policy statement:

We believe that the present Coal Severance Tax and method of distribution is fair and equitable, both to the consumer and to the counties where the coal is mined.

We recognize that the coal severance tax and coal conversion tax together are not major sources of revenue for our state yielding about $45.8 million for the current biennium but realize that if this legislation is passed it will require property owners to pick up the slack in meeting the educational, welfare and other needs of our state.

Of much greater concern to us is any limitation of the oil and gas production tax and the oil extraction tax. Our yield in those areas have been vital in meeting our educational needs.

We are also concerned about the impact of energy development to the schools, counties and townships as is indicated in the following policy statement:

We urge the North Dakota Legislature to distribute an adequate amount of the oil and gas tax money to the schools, counties and townships to offset the impact they are having because of the energy development.

Mr. Chairman, members of this subcommittee, we are pleased that you are holding this hearing and allowing this testimony for those of us who are unable to be present in Washington, D.C. so that we might focus on the various misconceptions behind federal severance tax legislation such as S. 463 and HR 4869 introduced by Representative Concoran (R-IL) that severance taxes disrupt Interstate Commerce, impede economic development in the energy consuming states and result in a tax windfall for the taxing states.

S. 463 and HR 4869 are not the first attempt to take away the constitutional right of producer states to make their own judgments on the level of resource taxation they should impose.

Several bills have been introduced in previous congressional sessions to limit Montana's coal tax to 12½%.

In the 1981 session, S. 1778, introduced by Senator David Durenberger (R-Minn.) applied only to coal mined on federal lands, while HR 1313, introduced by Representative Sam Gibbons (D-Fla), applied to all coal. If either of these bills are enacted, S. 463 or HR 4869, many western states will be adversely affected, since they have historically levied taxes on the extraction of natural resources.

Because there is a great deal of misinformation on the subject of energy severance taxes I think that some pertinent facts need to be presented to help clear the air. First of all, we should know the background and then address such important points as:

1. Is there a need for severance?
2. What effect does that severance tax have on the consumer?

3. How about looking at the whole picture?

4. Has the higher severance tax reduced production of coal?

5. Shouldn't we think in terms of energy content - or BTUs?

Our members believe there is a need for severance.

Due to the increased activity in the past several years in the search for and the development of alternatives to foreign oil, there has been a great increase in coal exploration, surface mining, energy conversion, and energy transmission in North Dakota. This activity has created a host of problems within the state and created numerous burdens upon state and local governments where these activities have taken place. With the influx of mining and energy personnel, roads, schools, law enforcement, social services and other essential local government services have had to be created, improved or enlarged at great expense to the taxpayers in North Dakota. North Dakota is paying for the costs of siting, reclamation enforcement and regulatory procedures associated with that coal development. North Dakota is contending with the increased air and water pollution and the threat of a long-term loss of agricultural productivity as a result of that coal development.

These necessary government programs must be paid for; North Dakota and other states have looked to coal severance taxes for a share of these costs and for compensation for nonrenewable resource. Many of the other states in the West have done likewise, each having learned a lesson from the history of Appalachian coal development.

North Dakota sponsored a regional environmental assessment program at a cost of over $6 million to determine the environ-

mental and economic impacts of coal development on our state. One of the products of that study was a comprehensive review of the costs and revenues associated with coal development in the period from 1976 to 1983, considering all projects approved for development.

That study looked at all costs to state and local governments resulting from coal development and all state and local revenues associated with that same development. A conclusion of that study was that the combined deficits to state and local government from coal development for the period from 1976 to 1983 would be $44 million.

That conclusion did not include any costs for the negative impacts of air and water pollution, potential long-term loss to the agricultural productivity of land, aquifer damage, or any other environmental costs. It also did not include costs for projects completed prior to 1975.

It has been said by some that all these severance taxes are but ill-disguised attempts by the states to carve out a bigger piece of the pie, to the detriment of sister states which do not have the natural resources of the western states. The fact remains that the extraction of coal, from North Dakota and other similarily situated states, depletes the physical wealth of the state, imposes undesirable consequences on portions of society and forecloses alternatives available to the state. Examples of this are the desolation created by an open pit strip mine and the deterioration in air quality caused by coal conversion. State taxation of natural resources, in the form of a severance tax, is an appropriate means for the citizens of North

Dakota and other western states to receive just compensation for adverse impacts caused by the extraction and removal of coal and extraction of oil and natural gas from within the boundaries of North Dakota.

Our members are concerned about the costs and other impacts of energy development and their affect on state revenues. We have ten member, representative Taxation and Natural Resources committees, which have traveled in the impacted energy development areas and contacted local citizens. In addition, they and the staff coordinator monitor interim legislative committee meetings as well as legislative sessions.

These members seek out the facts on the responsible nature of the application of severance tax revenues to meet the immediate and long term needs of our people for public services delivered, not by federal agencies, but by state, county and city governments directly for the benefit of the people most affected.

The North Dakota Energy Impact Office works daily with local governments to meet the demands placed upon government services due to increased energy activity.

A review of the facts have demonstrated conclusively to our concerned Farm Bureau members that North Dakota is both reasonable and responsible in its levying of severance taxes and its distribution of revenues acquired from such taxes.

Many of our members have expressed the opinion that the last thing the federal government ought to be doing is trying to tell North Dakota how to conduct our business.

They believe that some resource developers are inclined to

want to reap all of the benefits but bear little or none of the costs associated with resource development.

Our members feel that North Dakota is wise in adopting a pay-as-you-go approach asking the resource developers to pay a reasonable severance tax to cover all of the costs of that development.

To me, the establishment of a federal severance tax limitation on the states would be contrary to the long standing recognition of the Congress to defer to the states in matters relating to severance taxes and their distribution and application toward mitigating community impacts in coal producing areas.

North Dakota Farm Bureau does not believe that in the foreseeable future the Congress needs to change its long standing policy to allow states to tax the severance of minerals unencumbered by national standards. The western states have generously responded to our country's energy needs. They have also acted responsibly as stewards of the land and as trustees for future generations.

What effect does the severance tax have on the consumer? Let's look first at the oil taxes.

In November of 1980, the voters of North Dakota passed on an oil extraction tax of 6½% to apply to the value of oil at the wellhead. That tax is in addition to our 5% tax on the value of oil and gas at the wellhead, which is in lieu of all property taxes. Therefore, our total tax on oil in North Dakota is 11½%, and our total tax on natural gas is 5%. We anticipate total collections for all unites of government of $301 million from these taxes during the current biennium. The North Dakota consumer benefits from that increased revenue. What about the

Minnesota consumer of oil produced in North Dakota, is he adversely affected? In order for consumers to be adversely affected by the additional tax imposed by North Dakota on oil, the price of crude oil would have to have increased as a result of the additional tax. Before imposition of the 6½% tax oil was $39.50 per barrel, and the current price after the 6½% oil tax has been fully implemented is approximately $30 per barrel. The reason for this is that the price of oil is determined more often by world market conditions than by the oil producers.

The oil producer, like the wheat farmer, in most cases cannot add increased taxes onto the price of his product because neither the oil producer nor the farmer controls the price of his product. World market conditions control the prices of both commodities and are less affected by levels of state taxation. Then why should the level of our current oil production and extraction taxes be limited?

The suggestion by some that a state like North Dakota with large energy reserves can rely on that tax base to keep energy-poor states at a permanent, competitive disadvantage neglects to evaluate the natural competitive advantages of other states. For example, the state of Minnesota with its ten thousand lakes has enjoyed a competitive advantage over the state of North Dakota for decades. The lakes have attracted thousands of North Dakotans who have paid sales taxes, property taxes and income taxes to the state of Minnesota, but at no time did North Dakota suggest that we ought to have national legislation passed to limit the levels of Minnesota state taxes because

of that competitive advantage.

I am providing you with a study done by the North Dakota Tax Department on the effect of that severance tax on the consumers of electricity provided by Minnesota Power & Light, Minnkota Power, Montana-Dakota Utilities, Northern States Power, Northwestern Public Service, Otter Tail Power, and the United Power Association. I am also providing you with a similar study conducted by the state of Montana on the cost to the consumer of the Montana severance tax in 1980.

North Dakota levies a coal severance tax of $1.04 a ton, which the N.D. Tax Department will generate $45.8 million for the state of North Dakota over the current biennium of July 1, 1983 through June 30, 1985.

It is interesting to note that the effect of North Dakota's severance tax on the Minnesota Power & LIght customer is one-half of 1% of the total residential electricity bill. The effect of Montana's severance tax is 1.2%, for a combined effect of coal severance taxes on the Minnesota Power & Light consumer of 1.7% of the total residential electricity bill.

Similarly, a customer of Northern States Power pays virtually nothing as a result of North Dakota's severance tax and approximately 1.1% of their average annual residential electricity bill as a result of Montana's coal severance tax. A customer of United Power Association pays 1.8% of their total residential electricity bill as a result of North Dakota's coal severance tax. A customer of Minnkota Power Cooperative pays approximately 1.4% of their average annual residential electricity bill as a result of North Dakota's coal severance tax (A1, A2). The

point is clear that less than 2% of a Minnesota consumer's electricity bill is due to coal severance taxes in Montana and North Dakota.

The state of Minnesota actually receives more revenue from the product of one ton of North Dakota lignite than does the state of North Dakota. That is true because one ton of North Dakota lignite produces approximately 1,000 kwh of electricity which markets in the state of Minnesota for $50. Minnesota attaches a 6% sales tax to that amount and receives $3.00 in sales tax revenue on the electricity produced in North Dakota. North Dakota receives $1.04 in coal severance tax on the one ton of lignite coal used to produce that electricity. So Minnesota is receiving nearly 3 times what North Dakota is receiving on the product of one ton of North Dakota lignite.

North Dakota, however, is having to pay for all of the impacts associated with the production of that electricity. North Dakota is paying for the new roads, the new schools, and the increased fire and police protection associated with that coal development, plus the other costs that I mentioned earlier in my testimony. If Minnesota were truly concerned about the impact of our severance taxes on its consumers, the state of Minnesota could do what we have done in North Dakota and remove the sales tax from electricity. That one action would offset the entire effect of our severance tax on the Minnesota consumer by a factor of 3 times.

I believe that it is easy to focus on the severance taxes of the states which provide the coal and the electricity necessary for consuming states, but an investigation of the entire tax structure of the producing states on the coal industry

would be necessary to make a fair judgment as to whether or not producing states are being unfairly compensated.

For example, you should be aware that North Dakota has a cut-rate property tax on the plants that produce electricity for the consumers of Minnesota. In North Dakota we have a tax, in lieu of all property tax, which is known as the coal conversion privilege tax, which is levied at the rate of .50 mills per kwh. That tax generates tax revenue of approximately $1.5 million a year on a 440 megawatt plant, which costs roughly $550 million to build. If that amount of property were taxed as all other commercial property is taxed in North Dakota, it would pay a property tax of approximately $5 million a year.

The plants used to generate electricity to air condition Minnesota homes, heat Minnesota schools and power Minnesota industry, pay a tax in lieu of property tax, which is one-third to one-fifth the rate all other North Dakota property taxpayers are expected to pay. If you seek to limit our coal severance tax, it would be a relatively easy matter to more than make up for the revenue loss by increasing our taxes on the plants.

To judge the fairness of our tax structure on coal development in North Dakota, it is interesting to review what a 440 megawatt plant pays in North Dakota compared to what it would pay if it were sited in the state of Minnesota. The following comparison between property taxes in Minnesota and coal conversion and coal severance taxes in North Dakota understates the differential between the two states, because we omit Minnesota's much higher levels of corporate and individual income tax and state sales tax:

440 MW plant cost	=	$550,000,000
Minnesota Property Tax (63% exempt; 5% on remainder)	=	$ 10,200,000
Less: N.D. Conversion Tax (based on actual receipts)	=	$ 1,500,000
Less: N.D. Severance Tax (2.7 M tons @ $1.00)	=	$ 2,700,000
Savings to Consumer by Locating Plant in North Dakota vs. Minnesota	=	$ 6,000,000 per year

As the table shows, there is a savings just on property taxes to consumers of $6,000,000 a year by locating a 440 megawatt plant in North Dakota instead of Minnesota. Perhaps we should have our Congressional delegation introduce legislation to limit the amount of Minnesota's property tax.

It is really interesting to notice that while Minnesota's public officials complain of the severance taxes in North Dakota, our state bears the brunt of the factor which is actually responsible for the geometric increases in the cost of electricity - increased demand. The capital costs of new generating capacity is what is really driving up the cost of electricity to consumers. North Dakota suffers from Minnesota's hunger for electricity. Minnesota utilities are siting their plants in North Dakota, stringing their high voltage power lines across our state. And what do we get? We get the higher electricity prices that result when those new plants open.

In other words, North Dakota consumers are hurt by the demands for new electricity supplies made by consumers in Minnesota. We were energy self-sufficient before the new plants were constructed. Those plants are being constructed largely

for the benefit of consumers in Minnesota. But every time a new plant goes on line, the costs of that plant must be paid for by all the consumers of electricity in that system. That means North Dakota consumers are being asked to pay millions of dollars in increased electricity bills every year to pay for plants constructed to meet the electricity demands of Minnesota consumers.

If legislation is passed placing a limitiation on our state coal severance tax, then perhaps we should ask our Congressional delegation to introduce legislation limiting the amount of electricity Minnesota consumers can use because of its adverse impact on North Dakota consumers.

Thomas R. Stauffer, of Harvard University, has attempted to quantify all of the taxes on electricity collected by consumer states in terms of cost of the oil, coal or other energy source. In New York, for example, the gross receipts tax, gross earnings tax, and sales tax on electricity plus the local property tax on electric generation equipment amounts to $15 a barrel of oil. In New Jersey, it is $27 a barrel of oil and $16 per ton of coal (as opposed to about $2 per ton of Montana severance tax for the same grade of coal).

Transportation is a far more significant factor in the ultimate consumers' electric bill than Montana's coal tax. On an average, 59% of the delivered price of coal is attributable to transportation costs.

The following figures give an indication of the relative impact of transportation and Montana production taxes:

Utility	Cost of Coal	+ Tax	+ Transportation	= Del.Price
Detroit Edison	$ 9.36	$2.51	$ 8.06	= $19.93
Northern States Power	6.69	1.76	9.36	= 17.81
Houston Light & Power	10.70	2.89	23.30	= 36.89

The increase in freight rates in 1979 for most coal - just the increase - was higher than the entire Montana coal severance tax!

It is interesting and disturbing that many of these bills that have been introduced in Congress single out three states, Montana, Wyoming and North Dakota, even though many other states collect far more severance tax.

In 1979, for example, 35% of all the severance taxes collected in the United States were collected by the State of Texas.

The following chart for FY 1980 shows that Montana's coal tax collection was relatively small by comparison with the severance tax dollars collected by some of the giant oil and gas producers.

Texas	$1,525.1 Million	(oil & gas)
Louisiana	525.3 Million	(oil & gas)
Alaska	506.5 Million	(oil)
Minnesota	111.8 Million	(taconite & natural ore)
Florida	63.9 Million	(phosphate)
Montana	75.0 Million	(coal)

The tragedy of this ill-advised legislation is that the proposed limit on state severance taxes misses the mark.

It will do little to stop the massive flow of dollars from the energy-poor to the energy-rich states like Texas and Louisiana since their severance taxes on oil and gas would not be affected by the limit. The legislation is skewed in favor of states with hight valued resources and against states like North Dakota that receive relatively little per BTU of exported energy.

In answer to the question of whether or not the higher

severance tax has reduced or will reduce production of coal, we believe the record will indicate that the answer is no.

I'd like to quote from testimony given by former Montana Governor, Thomas Judge on S2695, Coal Severance Taxes, before the Committee on Energy and Natural Resources, U.S. Senate, Washington, D.C. on August 6, 1980:

> "In our economic system, the market place and not the Congress should determine the cost of a particular product, commodity or service. The Montana coal tax is a legitimate cost of doing businesss in our state. If the rate is too high, coal from other states will have a competitive advantage, demand will decline and the state will lose revenues as the tax is applied to a lower volume of production. This has not happened in Montana.
>
> "Since the time the 30 per cent tax was enacted in 1975, coal production has increased from 4 million tons to more than 30 million tons and could reach 60 million tons by the end of this decade, according to federal projections. The tax has not limited coal production in Montana. The real impediments have been duplicative and expensive federal regulations, delays in the delivery of equipment and the cost and availability of transportation.
>
> "If the tax is too high, we will get the message from the market place and adjustments could be made to protect the competitive position of Montana producers. This decision should be the responsibility of the Montana Legislature, however, and not the United States Congress.
>
> "In Montana, we understand the mechanics of tax policy and

the effect that excessive rates would have on the production of coal in our state. We believe the 30 per cent tax is equitable because it generates the revenues to mitigate the impacts of today and to invest in tomorrow without destroying the competitive position of our producers. And the wisdom of this theory has been confirmed by the market place."

In a publication from the N.D. Coal Impact Office the following figures on statewide production seem to indicate that it has not had an appreciable effect:

STATEWIDE PRODUCTION IN TONS

FY 1977	12,000,000
1978	14,790,818
1979	15,251,666
1980	16,764,468
1981	17,449,233
1982	17,632,508
1983	17,609,536
1984	19,891,505

Another way to determine the reasonableness of the coal severance tax is to recognize the difference between the ton of coal and the energy end-product derived from that ton. We should stop conceptualizing energy in terms of barrels or tons and instead think in terms of energy content - or BTU's (a BTU or British Thermal Unit, is the amount of energy it takes to raise one pound of water one degree fahrenheit.) For comparison purposes, one ton of Montana sub-bituminous coal (higher in BTU's than ND lignite) has the average heat content of 3.5 barrels of oil.

Looking at it from that perspective, the Montana coal tax becomes more favorable in comparison with other severance taxes as is illustrated by the following information which shows the cost per million BTUs:

Louisiana Oil Tax	-	27.62¢
Oklahoma Oil Tax	-	26.86¢
Texas Oil Tax	-	14.85¢
New Mexico Oil Tax	-	13.27¢
Montana Coal Tax	-	12.11C

In conclusion, Mr. Chairman and members of this subcommittee, I would like to thank you for allowing me to address some of these important considerations of the energy severance taxes. I would hope that some of our Illinois, Minnesota and Texas friends and those from other states, who have been such strong proponents of these attempts will better understand why these severance tax limitation bills are so unfair, unreasonable, and unprecedented.

We were also pleased a few years ago to learn that on August 14, 1981 the Midwestern States of Tax Administrators, comprised of professional tax administrators from such important industrial states as Ohio, Indiana, Michigan, Illinois, Wisconsin and Missouri, in addition to North and South Dakota, Nebraska, Kansas, Oklahoma, Iowa and Minnesota, passed a resolution on August 14, 1981 opposing any intrusion by the United States Congress on the states sovereign right to determine their own tax policy.

The fact that states as diverse as those passed the resolution indicates very clearly that it is simply poor public policy for Congress to interfere with such an important states sovereign right.

SUMMARY OF THE COST TO THE CONSUMER OF THE NORTH DAKOTA SEVERANCE TAX
1980

Utility	Quantity	Severance Tax per ton	Severance Tax paid	Residential % of Total Kwh Sales	Avg # of Residential[12] Customers	Cost per Residential Customer	Average Annual Residential Bill	Severance tax as a percentage of total bill
Minnesota Power & Light[1]	2,246,188[2]	.89	$1,999,107	8.35	96,265	$1.73	$368.56	.5
Minnkota[3]	1,454,708	.89	1,294,690	32.99	59,180	7.22	509.43	1.4
Montana Dakota Utilities[4]	1,085,000[5]	.89	965,650	42.81	89,790	4.60	315.62	1.5
Northern States Power[6]	21,032[7]	.89	18,718	27.80	958,036	----	332.18	---
Northwestern Public Service[8]	754,000	.89	671,060	46.77	43,551	7.21	482.73	1.5
Otter Tail[9]	1,920,128[10]	.89	1,708,914	29.56	93,064	5.43	482.67	1.3
United Power Association[11]	2,226,962	.89	1,983,781	71.53	128,535	11.04	601.00	1.8

1/ All Information for MP&L is from their Uniform Statistical Report except where otherwise noted.
2/ Square Butte 1980 Annual Report
3/ Minnkota Power Cooperative, INC. 1980 Annual Report
4/ Information for MDU is from Form #1 Report to the FERC except where otherwise noted
5/ Obtained from MDU directly
6/ Information for NSP is from their Uniform Statistical Report except where otherwise noted
7/ Obtained from NSP directly
8/ Uniform Statistical Report
9/ Uniform Statistical Report--except where otherwise noted
10/ Obtained from Otter Tail Directly
11/ UPA Annual Report
12/ For Cooperatives, residential includes Farms
NOTE: There are two other cooperatives utilizing ND coal for electrical generation purposes, however, there is an insufficient amount of informati available from which to perform an analysis similar to that above. The two cooperatives are Basin Electric and Cooperative Power Associatio

SUMMARY OF THE COST TO THE CONSUMER OF THE MONTANA SEVERANCE TAX

1980

Utility	Quantity[1] (1000s tons)	Cost of Montana coal (per ton) Dlvrd[1]	f.o.b.[2]	CSP[3]	Severance tax per ton[4]	Severance tax paid	Residential percentage of total Kwh Sales[5]	Average number of residential customers[5]	Average annual residential cost	Average annual residential bill	Severance tax percentage of average annual residential
Central Illinois Light	523.8	$30.71	$11.62	$8.12	$2.44	$ 1,278,000	30.4	165,075	$2.35	$551.25	0.4
Commonwealth Edison	4,313.0	36.47	17.91	12.86	3.86	16,648,000	28.7	2,695,895	1.77	412.74	0.4
Detroit Edison	2,636.0	19.93	11.87	8.38	2.51	6,616,000	30.4	1,622,025	1.24	359.86	0.3
Houston Lighting & Power	94.4	36.89	13.59	9.64	2.89	273,000	24.3	883,755	0.08	711.28	---
Interstate Power	249.4	25.44	8.00	5.51	1.65	412,000	23.5	122,097	0.79	414.82	0.2
Lower Colorado River Auth.	925.5	43.32	20.76	14.90	4.49	4,156,000	4.1[f]	17,239[f]	9.88	454.90	2.2
Minnesota Power & Light	3,028.0	15.94	8.50	5.59	1.68	5,087,000	8.4	96,265	4.44	368.56	1.2
Montana Dakota Utilities	292.8	12.80	11.15	8.37	1.56	457,000	42.88	89,7908	2.18	315.62	0.7
Montana Power Company	1,777.6	7.66	6.19	4.24	1.27	2,258,000	19.98	191,0258	2.35	229.15	1.0
Northern States Power	7,292.3	12.81	8.45	5.87	1.76	12,834,000	27.6	958,036	3.72	332.18	1.1
Puget Sound Power & Light	1,293.4	6.19	6.19	4.24	1.27	1,643,000	56.4	480,276	1.72	371.66	0.5
Wisconsin Power & Light	1,985.1	19.63	7.73	5.36	1.61	3,196,000	26.4	264,401	3.43	405.26	0.8

[1]Delivered cost. Source: U.S. Department of Energy, Form 423 summary, unpublished computer printout.
[2]f.o.b., freight on board, delivered cost less estimated transportation charges.
[3]C.S.P., contract sales price, fob = CSP + 0.3CSP[a] + 0.005CSP[b] + (0.45)(CSP)(Mill levy)[c] + $0.35[d] + 0.02 f.o.b.
[4]30 percent of CSP.
[5]Source: Company's Uniform Statistical Report to Edison Electric Institute for year ended December 31, 1980.
[a]Montana Severance Tax. [b]Resource Indemnity Trust Tax. [c]Gross Proceeds (local ad valorem property tax).
[d]Federal Abandoned Mine Reclamation Fee. [e]Federal Black Lung Tax, use an upper limit of $0.25 per ton.
[f]Source: Company's Annual report to the Economic Regulatory Administration, U.S. Dept. of Energy
[g]Source: Company's F.E.R.C. Form 1, for the year ending December 31, 1980.

THE REAP PROJECTIONS OF THE 1976-1983 COAL DEVELOPMENT COSTS AND REVENUES TO STATE AND LOCAL GOVERNMENT FOR ALL APPROVED PROJECTS*

(INCLUDES ANG I)

STATE COSTS AND REVENUES GENERATED BY COAL DEVELOPMENT**

State Government Costs

Direct and Industry Specific Costs (siting, regulation, reclamation and pollution control, forecasting, etc.)	$26,158,000[1]
School Aid	13,416,000
Highway Costs	74,841,000
Other State Government Costs	48,485,000
Transfers to Local Government	3,467,000
Total State Government	$166,164,000

State Revenues (excluding severance/conversion tax revenues)

State Income Taxes	$12,548,000
Sales & Special Taxes	31,152,000
Highway Taxes	10,782,000
Total State Revenues	$54,482,000
Gross deficit from Coal Development to State Government (costs less revenues)	$111,682,000

[1] From estimates furnished by state agencies and departments. Does not include Federally funded projects.

LOCAL GOVERNMENT COSTS AND REVENUES GENERATED BY COAL DEVELOPMENT

Local Government Costs

Schools	$21,755,00
Law Enforcement & Public Safety	5,805,00
City & County General Government	34,881,00
Social Services	895,00
Streets	1,068,00
Debt Service (new capital expenditures for water, sewer and waste disposal)	34,196,00
Total Local Government	$98,600,00

Local Revenues (excluding severance/conversion tax revenues)

Property Tax	$ 8,639,00
State Educational Aid	13,432,00
State & Federal Transfer	4,517,00
User Fees & Special Assessments	29,247,00
Total Local Revenues	$53,835,00
Gross deficit from Coal Development to Local Government (costs less revenues)	$44,585,00

Gross deficit from State Government without coal revenues	$111,682,000
Gross deficit from Local Government without coal revenues	44,585,000
Coal Conversion & Severance Tax Revenues needed to meet impact 1976 - 1983	$156,247,000

*Does not include costs for projects completed prior to 1975.

**Does not include costs for negative impact of air and water pollution, long-term loss of productivity of land, aquifer damage, or potential other [illegible]

THE COMBINED DEFICITS TO STATE AND LOCAL GOVERNMENT
FROM 1976-1983 COAL DEVELOPMENT UNDER EXISTING AND PROPOSED
COAL TAX LAWS FOR ALL APPROVED PROJECTS

(INCLUDES ANG I)

HB 1257
85¢ PER TON WITH 1¢ INCREASE FOR EVERY 4 POINT
INCREASE IN WHOLESALE PRICE INDEX

1976-1983 Gross Deficit – State & Local Government		$156,247,000
Projected Coal Severance and Conversion Taxes	$130,223,000	
Less Allocation to Trust Fund	17,636,000	
Available to Meet Impact		112,587,000
NET SHORTFALL		$ 43,660,000

WRITTEN TESTIMONY

REGARDING TAX EXEMPT FRINGE BENEFITS

SUBMITTED TO THE SENATE FINANCE SUBCOMMITTEE

ON TAXATION AND DEBT MANAGEMENT

BY

JEROME C. PREMO

OF THE

NORTHEAST CORRIDOR COMMUTER RAIL AUTHORITIES COMMITTEE

39-707 O - 85 - 73

I AM JEROME C. PREMO, EXECUTIVE DIRECTOR OF NJ TRANSIT CORPORATION AND CHAIRMAN OF THE NORTHEAST CORRIDOR COMMUTER RAIL AUTHORITIES COMMITTEE (NECCRAC). ON BEHALF OF NECCRAC, I APPRECIATE THE OPPORTUNITY TO SUBMIT TESTIMONY TO THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT WITH RESPECT TO YOUR HEARINGS ON FRINGE BENEFITS. FOR THE EIGHT NECCRAC MEMBERS (SEE ATTACHED), THE ISSUE OF TAX EXEMPT FRINGE BENEFITS FOR EMPLOYER SUBSIDIZED TRANSIT COMMUTATION PASSES IS IMPORTANT BECAUSE OF THE HIGH INCIDENCE OF EMPLOYER SUBSIDIZED AUTO COMMUTATION AND THE LACK OF PARITY BETWEEN SUCH AUTO AND TRANSIT SUBSIDIES.

BESIDES BEING COMMUTER RAIL OPERATORS, MANY NECCRAC MEMBERS ARE ALSO PROVIDERS OF BUS, SUBWAY AND TROLLEY SERVICES. FURTHERMORE, THERE ARE OTHER PUBLIC AND PRIVATE OPERATORS OF PUBLIC TRANSPORTATION SERVICES WHICH MAKE UP THE PUBLIC TRANSPORTATION SYSTEMS THAT ARE SO VITAL TO BOSTON, NEW HAVEN, NEW YORK, PHILADELPHIA, WILMINGTON, BALTIMORE AND THE ENTIRE STATE OF NEW JERSEY. THERE ARE 2 MILLION DAILY TRIPS MADE ON THE COMMUTER RAILROADS WHICH OPERATE ON THE NORTHEAST CORRIDOR. AN ADDITIONAL 12 MILLION DAILY TRIPS ARE MADE ON THE BUSES, TROLLIES AND SUBWAYS OPERATED BY NECCRAC MEMBERS. COMBINED, WE ARE TALKING ABOUT 14 MILLION TRIPS MADE DAILY ON THE PUBLIC TRANSPORTATION SERVICES PROVIDED BY NECCRAC MEMBERS IN THE NORTHEASTERN PORTION OF THE UNITED STATES. THIS NUMBER IS EVEN GREATER WHEN YOU INCLUDE - NON-NECCRAC MEMBERS AND PRIVATE BUS OPERATORS.

IT IS CLEAR THAT PUBLIC TRANSPORTATION OPERATORS IN THE NORTHEAST ARE ATTRACTING MILLIONS OF RIDERS. WHAT IS ALSO CLEAR, HOWEVER, IS

THAT THE HIGHWAYS OF OUR GREAT METROPOLITAN AREAS CONTINUE TO BE CONGESTED AND OVERBURDENED BY THOSE INDIVIDUALS WHO OPT FOR THE AUTOMOBILE OVER PUBLIC TRANSPORTATION.

THERE ARE MANY REASONS WHY THE AUTOMOBILE SOMETIMES IS CONSIDERED A MORE ATTRACTIVE MODE OF TRANSPORTATION. MANY AUTO COMMUTERS CONSIDER TRAVEL BY CAR SAFER, MORE CONVENIENT AND FASTER. IN NEW JERSEY WE RECOGNIZE THIS AND HAVE TAKEN STEPS TO MAKE PUBLIC TRANSPORTATION MORE COMPETITIVE WITH THE AUTOMOBILE. IN THE PAST SEVERAL YEARS, NJ TRANSIT HAS RESTRUCTURED ITS BUS ROUTES SO THAT THEY MORE EFFICIENTLY AND EFFECTIVELY MEET RIDERS DEMANDS. WE HAVE INITIATED A HIGHLY VISIBLE AND AGGRESSIVE MARKETING CAMPAIGN SO THAT RIDERS ARE MORE AWARE OF THE ACCESSIBILITY OF PUBLIC TRANSPORTATION. WE HAVE RECENTLY INITIATED A COMPLETE REVIEW OF HOW TO SPEED UP OUR TRAINS IN ORDER TO REDUCE TRAVEL TIME. WE HAVE TAKEN MAJOR STEPS, SUCH AS THE TRIPLING OF THE POLICE FORCE OF NEWARK PENN STATION TO ENSURE THAT SAFETY IS MAINTAINED AND IMPROVED. THESE EFFORTS, IN ADDITION TO THE MULTIMILLION DOLLAR CAPITAL INVESTMENT BY THE URBAN MASS TRANSPORTATION ADMINISTRATION (UMTA), THE STATE AND THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY HAVE INDEED SUCCEEDED. RIDERSHIP IS PROJECTED TO INCREASE 3 PERCENT OVER THE LAST YEAR. WE ARE REACHING OUR CITIZENS AND THEY ARE GETTING THE MESSAGE -- PUBLIC TRANSPORTATION IS JUST AS SAFE AND FAR MORE EFFICIENT AND EFFECTIVE THAN COMMUTING ALONE IN AN AUTOMOBILE.

NJ TRANSIT IS NOT ALONE IN MEETING THIS CHALLENGE. SEPTA, METRO NORTH, PATH AND THE LONG ISLAND RAILROAD (LIRR) ARE ALL UNDERTAKING MAJOR CAPITAL IMPROVEMENT PROGRAMS WHICH WILL INCREASE THE ATTRACTIVENESS, EFFICIENCY AND RELIABILITY OF PUBLIC TRANSPORTATION. THE LIRR HAS A MARKETING PROGRAM WHICH IS HIGHLY VISIBLE AND EFFECTIVE. SEPTA CONTINUES TO PURSUE PUBLIC/PRIVATE OPPORTUNITIES TO PROMOTE PUBLIC TRANSPORTATION. IN BALTIMORE AND BOSTON MAJOR EXTENSIONS AND NEW STARTS HAVE BEEN COMPLETED OR ARE UNDERWAY WHICH WILL TREMENDOUSLY INCREASE THE ABILITY TO MEET THE PUBLIC TRANSPORTATION NEEDS OF THEIR URBAN CENTERS.

WITH ALL OF OUR EFFORTS AND INVESTMENTS, HOWEVER, OUR MESSAGE RARELY IS ABLE TO INFLUENCE ONE TYPE OF INDIVIDUAL -- THE COMMUTERS WHO ARE SUBSIDIZED BY THEIR EMPLOYER. AND NO MATTER HOW WE IMPROVE SERVICE, MAKE IT SAFER, OR MARKET IT, WE WILL NEVER CONVINCE THESE PEOPLE THAT A FULL FARE TICKET ON A CLEAN, EFFICIENT AND SAFE PUBLIC TRANSIT VEHICLE IS BETTER THAN AN EMPLOYER SUBISIDIZED AUTOMOBILE RIDE.

PRIOR TO THE ENACTMENT OF THE DEFICIT REDUCTION ACT WHY WOULD AN EMPLOYER FULLY OR PARTIALLY SUBSIDIZE AN AUTOMOBILE COMMUTATION AND NOT CONTRIBUTE TO THE COST OF A TRANSIT COMMUTATION TICKET? FROM OUR DEALINGS WITH THE BUSINESS COMMUNITY IT WAS BECAUSE THE TAX LAW WAS UNCLEAR. PRIOR TO ENACTMENT OF THE DEFICIT REDUCTION ACT, THE SUBSIDIZATION OF AN EMPLOYEES TRANSIT TICKET MAY OR MAY NOT HAVE RESULTED IN A TAX BURDEN TO THE EMPLOYEE. EMPLOYERS DID NOT WANT TO

GET INVOLVED IN A PROGRAM WHERE THE TAX LIABILITY FOR EMPLOYEES WAS UNDEFINED.

DOES THE DEFICIT REDUCTION ACT NOW ENABLE US TO SEEK EMPLOYER SUBSIDIZATION OF TRANSIT PASSES? CERTAINLY IT DOES. THE $15 PER MONTH TAX EXEMPT FRINGE BENEFIT CLEARLY DEFINES THE TAX LIABILITY. FURTHER, IT ENABLES THE TRANSIT OPERATOR TO BETTER PROMOTE PROGRAMS WHERE EMPLOYERS CONTRIBUTE. CONGRESS MUST BE COMMENDED FOR CLARIFYING THE LAW, AND MUST BE CONGRATULATED IN RECOGNIZING THE NEED. HOWEVER, THE $15 TAX EXEMPTION WILL HAVE MINIMAL IMPACT OF PROMOTING RIDERSHIP IN URBANIZED AREAS.

WILL THE $15 EXEMPT FRINGE BENEFIT PROMOTE RIDERSHIP? MAYBE IN SOME PARTS OF THE NATION. I DOUBT IF IT WILL IN NEW JERSEY OR BOSTON OR BALTIMORE OR THE OTHER URBAN CENTERS OF THE COUNTRY WHERE AUTO COMMUTATION SUBSIDIES ARE DISPROPORTIONATELY HIGH IN COMPARISON TO THE $15.

WHILE THE DEFICIT REDUCTION ACT CLARIFIED THE TAX LAW, IT ALSO CONTINUED AN INEQUITY BETWEEN THE TRANSIT USER AND THE AUTO USER. THE TRANSIT USER CAN BE PROVIDED $15 PER MONTH AS A NONTAXABLE BENEFIT TO OFFSET THE COST OF TRANSIT COMMUTATION. THE EMPLOYER SUBSIDIZED AUTO COMMUTER, HOWEVER, HAS NO TAX EXEMPT LIMITATION PLACED UPON HIS OR HER BENEFIT. THE BOTTOM LINE IS THAT TRANSIT CANNOT COMPETE WITH THE AUTOMOBILE REGARDLESS OF WHAT THE TRANSIT INDUSTRY DOES.

WHAT IS THE IMPACT OF THIS CONTINUED INEQUITABLE TREATMENT? IN NEW JERSEY THE IMPACT IS CLEAR. NORTHEASTERN NEW JERSEY'S PUBLIC TRANSPORTATION SERVICES PRIMARILY SERVE NEW JERSEY COMMUTERS WHO NEED ACCESS TO THE MANHATTAN CENTRAL BUSINESS DISTRICT (CBD). THE MANHATTAN CBD IS ONE OF THE MAJOR EMPLOYMENT CENTERS FOR NORTHEAST NEW JERSEY CITIZENS, AND THEREFORE WE PROVIDE A HIGH LEVEL OF COMMUTER BUS AND RAIL SERVICE TO NEW YORK CITY. WITHOUT A DOUBT THE PUBLIC TRANSPORTATION NETWORK CONNECTING NORTHEAST NEW JERSEY TO MANHATTAN IS CONVENIENT, EFFICIENT AND EFFECTIVE. EVEN WITH THIS QUALITY AND QUANTITY OF SERVICE, OVER 3,900 DAILY AUTO RIDERS CONTINUE TO USE THE THE HOLLAND TUNNEL DURING THE PEAK PERIOD--EVEN THOUGH THIS CROSSING HAS AT LEAST 20 MINUTE DELAYS.

RECENTLY THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY UNDERTOOK A SURVEY AT THE HOLLAND TUNNEL TO DETERMINE WHY PEOPLE WERE DRIVING. THE SURVEY REVEALED THAT NEARLY 58 PERCENT OF THESE 3,900 AUTO DRIVERS WERE SUBSIDIZED BY THEIR EMPLOYER. SUCH PRACTICES ONLY EXACERBATE CURRENT AND PROJECTED CONGESTION AT THE HUDSON RIVER CROSSINGS.

IF AN EQUAL TAX EXEMPT SUBSIDY WAS PERMITTED FOR TRANSIT COMMUTATION, OR CONVERSELY IF AUTOMOBILE TAX EXEMPT SUBSIDIES WERE LIMITED TO $15 A MONTH, WE JUDGE THAT A SUBSTANTIAL NUMBER OF AUTOMOBILE DRIVERS USING THE HOLLAND TUNNEL DURING PEAK PERIODS WOULD SHIFT TO PUBLIC TRANSPORTATION. NOT ONLY WOULD THIS RELIEVE THE HIGHWAY CONGESTION, BUT IT WOULD ALSO GENERATE APPROXIMATELY $1 MILLION A YEAR IN ADDITIONAL REVENUE FOR NJ TRANSIT.

IS THE LACK OF PARITY BETWEEN TRANSIT AND AUTOMOBILE COMMUTATION BENEFITS CONSISTENT WITH PAST CONGRESSIONAL POLICIES? I BELIEVE NOT. SINCE THE ENACTMENT OF THE URBAN MASS TRANSPORTATION ACT OF 1964, CONGRESS HAS STRONGLY AND REPEATEDLY ENDORSED THE REVITALIZATION AND EXPANSION OF PUBLIC TRANSPORTATION SERVICES AS A CRITICAL MEANS TO INCREASE MOBILITY, SERVE THE ELDERLY AND HANDICAPPED, INFLUENCE URBAN DESIGN, ENHANCE ENERGY CONSERVATION, AND REDUCE HIGHWAY CONGESTION AND THE NEED FOR HIGHWAY CONSTRUCTION. INDEED, SINCE 1964, CONGRESS HAS PROVIDED OVER $25 BILLION IN PUBLIC TRANSPORTATION ASSISTANCE.

FURTHERMORE, CONGRESS RECOGNIZED THAT A VICIOUS CYCLE OF INCREASED FARES AND DECLINING RIDERSHIP HAD TO BE REVERSED. AS A RESULT, CONGRESS ESTABLISHED AND HAS MAINTAINED ITS LONG STANDING COMMITMENT OF PROVIDING FEDERAL OPERATING ASSISTANCE.

FINALLY, PAST TAX LAWS HAVE RECOGNIZED THE SPECIAL RELATIONSHIP BETWEEN TRANSIT AND THE PRIVATE SECTOR. THE SAFE HARBOR LEASING ACT OF 1981 IS A PRIME EXAMPLE OF THIS PUBLIC/PRIVATE PARTNERSHIP.

THE LACK OF PARITY BETWEEN AUTOMOBILE AND TRANSIT USER CANNOT BE JUSTIFIED. THE CURRENT FRINGE BENEFIT TAX LAWS CONTRADICT LONGSTANDING FEDERAL GOALS CONCERNING THE USE OF PUBLIC TRANSPORTATION AND THE BENEFITS DERIVED FROM SUCH USE.

AS THE HOLLAND TUNNEL SURVEY SHOWS, TAX EXEMPT FRINGE BENEFITS LAWS, AS THEY RELATE TO COMMUTATION, RESULT IN THE UNDERUTILIZATION OF PUBLIC TRANSPORTATION AND THE OVER UTILIZATION OF THE HIGHWAY NETWORK. EVEN MORE IMPORTANTLY, FRINGE BENEFIT PROVISIONS RESULTS IN THE DIVERSION OF POTENTIAL PASSENGERS, AND THEREFORE REVENUE, FROM PUBLIC TRANSPORTATION.

THE ABILITY TO INCREASE RIDERSHIP AND OPERATING REVENUE ARE ESSENTIAL IF PUBLIC TRANSPORTATION SERVICES ARE TO BE MAINTAINED AND IMPROVED. ONE MEANS OF INCREASING RIDERSHIP AND REVENUE IS THROUGH THE ACTIVE PARTICIPATION OF THE PRIVATE SECTOR.

CAN WE AFFORD TO DISCOURAGE FINANCIAL CONTRIBUTIONS TO TRANSIT FROM PRIVATE EMPLOYERS, ESPECIALLY TO THE EXTENT THAT IT OFFSETS THE NEED FOR PUBLIC SUBSIDY? I THINK NOT. THE AMOUNT TO BE GAINED THROUGH INCOME TAX RETURNS STANDS TO BE OUTWEIGHED BY THE LOSS OF PRIVATE REVENUE. EFFORTS TO INCREASE PRIVATE PARTICIPATION IN PUBLIC TRANSPORTATION IS A LONGSTANDING THEME OF THIS ADMINISTRATION, AND SOMETHING THAT NECCRAC STRONGLY EMBRACES. NECCRAC MEMBERS ARE CONSTANTLY SEEKING THE INCREASED INVOLVEMENT OF THE PRIVATE SECTOR. SEPTA AND MBTA, FOR EXAMPLE, ALREADY HAVE IN PLACE AN EMPLOYER TRANSIT PASS PURCHASE PROGRAMS WHICH PROVIDE LIMITED DISCOUNTS TO EMPLOYEES. IRONICALLY, THE $15 LIMITATION MAY PLACE PORTIONS OF THESE PROGRAMS IN JEOPARDY. THE METROPOLITAN TRANSIT AUTHORITY OF NEW YORK IS IN THE PROCESS OF DEVELOPING A TRANSIT PURCHASE PROGRAM. AT NJ TRANSIT, STAFF IS DEVELOPING METHODS FOR PROMOTING AND INVOLVING THE PRIVATE

SECTOR IN THE PURCHASE OF PASSES FOR EMPLOYEES. UNTIL PARITY BETWEEN THE AUTOMOBILE AND TRANSIT IS REALIZED, HOWEVER, THE BENEFIT OF SUCH PRIVATE/PUBLIC VENTURES IS LIMITED.

CONCLUSION

I URGE THIS SUBCOMMITTEE TO REOPEN THE ISSUE OF TAX EXEMPT FRINGE BENEFITS FOR EMPLOYER SUBSIDIZED TRANSIT PASSES. WHILE THE $15 PER MONTH EXEMPTION IS A DRAMATIC FIRST STEP IN RECOGNIZING THE NEED TO INCLUDE TRANSIT UNDER THE FRINGE BENEFIT PROVISION, IT IS A SMALL BENEFIT COMPARED TO THE LARGE AUTO SUBSIDIES WHICH REMAIN TAX EXEMPT (E.G. THE AVERAGE MONTHLY PARKING RATE IN MANHATTAN IS $120).

AT THE SAME TIME, HOWEVER, I RECOGNIZE THE NEED FOR A FISCALLY SOUND TAX POLICY AND, THEREFORE, THE RELUCTANCE BY SOME INCREASE NONTAXABLE COMPENSATION TO EMPLOYEES. IF THIS IS THE CASE, I SUGGEST THAT CONGRESS CREATE EQUITY BY CAPPING THE AUTOMOBILE SUBSIDY. SUCH A CAP COULD CREATE PARITY BETWEEN AUTO AND TRANSIT.

ONCE AGAIN, THANK YOU FOR THE OPPORTUNITY TO SUBMIT WRITTEN TESTIMONY.

Northeast Corridor Commuter Rail Authorities Committee (NECCRAC)

NJ TRANSIT

Port Authority Trans-Hudson Corporation (PATH)

Long Island Railroad (LIRR)

Metro North

Southeastern Pennsylvania Transit Authority (SEPTA)

Massachusetts Bay Transit Authority (MBTA)

Connecticut Department of Transportation

Maryland Department of Transportation

NORTHWEST OHIO PLASTIC SURGEONS, INC.

JOHN C. KELLEHER, M.D.
JAMES G. SULLIVAN, M.D.

GEORGE J. BAIBAK, M.D.
JOHN H. ROBINSON, M.D.
MICHAEL A. YANIK, M.D.

329 TWENTY-SECOND STREET
TOLEDO, OHIO 43624

TELEPHONE: (419) 255-0570

OFFICE HOURS BY APPOINTMENT

August 6, 1984

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Finance Committee Sub Committee on Taxation and Debt Management.

By N. W. Ohio Plastic Surgeons and its employees who maintain qualified Pension and/or Profit Sharing Plans for their employees.

We need to have a strong private pension system in this country to augment social security retirement benefits. The private sector makes the difference between "making it with dignity" and just barely getting by.

It stands to reason that with small companies, less than ten employees the larger percent of benefits would go the highly paid individuals - not recessarily only to men, since the highly paid receive more compensation than the lesser paid employees.

I believe employees would suffer if employer-sponsored benefits would be done away with; these pension and/or profit sharingplans are essential to the economic growth and stability of all workers and their dependents.

I do not belive the government can continue to meet the needs of older retired workers without some outside help; if the private sector is not encouraged to meet the demands of its employees the government must.

OAK FOREST COUNTRY CLUB 601 TOMLINSON PARKWAY • LONGVIEW, TEXAS 75604 • (214) 297-3932

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on finance
Dirksen City Office Building, Room SD-219
Washington, D.C. 20510

Mr. DeArment:

I am sending a statement in regards to the hearing to be held on the dates of July 26th, 27th, and 30th on the topic "Taxation Of Employee Benefits", and give you my opinion.

Our group benefits do not go to just the highly paid, nor do they go only to men. I will add however, that workers will suffer if there are not employee sponsored benefits, even the employees themselves can admit that for some of them it is the only way to receive these types of benefits. The benefits are now, and will continue to be the security of our workers, retirees, and their dependents.

Private enterprise had built an effective and efficient arrangement covering the need of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. I believe that the ultimate price to our nation will be greater.

Respectfully Yours,

Ken Brown, C.C.M.
General Manager

OKLAHOMA BANKERS ASSOCIATION INSURANCE TRUST
P. O. Box 54889 5005 N. Lincoln • (405)521-1711
Oklahoma City, Oklahoma 73154

TRUSTEES
N.L. McCLAIN
CHAIRMAN
OKLAHOMA CITY
RALPH McCALMONT
GUTHRIE
ROBERT L. HOLLIS
OKMULGEE
THOMAS W. TREADWELL
HOLDENVILLE
JOHN McMILLIN
ELK CITY
PATRICK O'NEILL
OKLAHOMA CITY

July 20, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate Office Building
Washington, DC 20510

RE: Fringe Benefits
Senate Finance Committee Hearing, July 26, 27, and 30

Gentlemen:

It is our understanding that the Senate Finance Committee is considering changes to the current tax laws regarding employee pension and welfare benefits. Please accept this letter as our strong statement in support of the current tax favored treatment in this area. Unfavorable tax treatment will cause hardship on the majority of employees working for Oklahoma banks.

The primary benefits provided by our Oklahoma banks involve health care, life, disability, and vision care insurance. Favorable tax deductibility for these services is a major consideration by these employers and employees. These type of benefits are provided to all employees on an equal basis without discrimination. The cost of the services is the same whether an employee is earning $15,000 or $50,000 and, without favorable tax treatment, could be dropped by the employer. This would be detrimental to the lower paid employees.

THE KEMPTON COMPANY
P. O. BOX 54889
OKLAHOMA CITY, OK 73154

ADMINISTRATOR OF THE TRUST
J. WAYNE KEMPTON, ADMINISTRATOR
(405)521-1711

As of July 1, 1984, The Oklahoma Bankers Association Insurance Trust contained represented over 370 Oklahoma Banks and 8,500 employees. In our opinion, over 60 percent of these employees earn less than $30,000 annually. Oklahoma banks are currently facing difficult times and are doing whatever necessary to contain costs. Any changes in the current tax status for employee benefits would increase costs, providing the employer continued the needed and necessary coverages. Your serious attention to retaining the current tax favored treatment of employee pension and welfare benefits is necessary.

Sincerely,

J. Wayne Kempton
Administrator

cc: Senator Nickles, State of Oklahoma
Senator Boren, State of Oklahoma

OMC

OUTBOARD MARINE CORPORATION

100 Sea-Horse Drive
Waukegan, Illinois 60085-2195
Phone 312/689-6200
Telex 025-3891

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

In response to the recent hearing on employee benefits held on July 26, 27 and 30, Outboard Marine Corporation would like to add a brief description of how we have met the needs of our employees and their families for the last several decades.

The last time we took an employee census, we had more than 6000 hourly and salaried, union and non-union employees covered under our pension program. Almost one-half of these are fully vested in their accrued benefits. In addition, there were more than 2600 retired employees and beneficiaries receiving monthly payments without which their financial situation would certainly be less manageable than it is. Also, there are more than 1200 former employees who are vested in their monthly accrued benefits and when they reach retirement age these payments will be a welcome addition to their old age income.

OMC also provides all of its employees with life insurance and accidental death and dismemberment insurance.

In the area of hospital and medical benefits, OMC provides all of its employees with very comprehensive coverage with little, if any, payment from the employee. As everyone knows, such coverage against large medical expenses is absolutely imperative today.

We could go on and on, but rather just let it be said the Outboard Marine Corporation, as part of private industry, is doing much to protect its employees at all levels from the social calamities of ill health, death, and financially insecure old age. The favorable tax climate which has enabled OMC and other private companies to do this should not be changed.

Yours truly,

David H. Viall

David H. Viall
Corporate Manager
of Employee Benfits

DHV:ksb

OWENS BRUSH COMPANY
Division of CooperCare, Inc.
P.O. BOX 552 • LOWER MUSCATINE ROAD • IOWA CITY, IOWA 52244
PHONE (319) 338-5411 • TELEX NO. 464409

July 18, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee of Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

It has come to my attention that a Finance SubCommittee Hearing will be held on the issue of fringe benefits on Thursday, July 26, Friday, July 27 and Monday, July 30, 1984. Please accept this written statement of my views on the subject of favorable tax treatment of employee benefits.

I have been in the profession of Personnel/Human Resources for over 20 years and have seen the tremendous impact in the improved personal security enjoyed by American workers and their dependents over these years. Most of this improved security has come directly from voluntarily created, employer-sponsored life, health, and disability insurance, pension plans and other benefits that cover the vast majority of employees. In most cases, these programs have been encouraged by favorable federal tax treatment.

As a benefit plan sponsor, I wish to make my views known on the tax environment for employee benefits. I do favor increases in tax-preferred employee benefits and retirement income incentives for the following reasons:

1. Employee benefit plans are the most efficient and cost effective way the market has devised for delivering economic security to employees.

2. Pension, life insurance, disability, and health plans benefit employees at all wage and salary levels, not just the highly compensated top executives.

3. Preferential tax treatment for employee benefit plans have encouraged their growth and is a wise investment in the future economic security of the nation. Preferential tax treatment is the best, and perhaps the only effective way to motivate employers to provide a "good" benefit program for their employees. Without the tax incentive, there is nothing "in it for the employer" to provide benefits to employees, except higher costs which will eventually result in higher prices or business failure.

4. If tax policy ceased to encourage employee benefits, additional strain would inevitably be placed on public institutions and programs ranging from community hospitals through the Social Security retirement and disability income system. Eventually the funding necessary for the

federal government to provide and operate government welfare programs would become even more excessive than it already is.

5. Congressional tax policy should continue to foster employee benefits, not regard them as simply an untapped source of revenue.

Please consider these views in support of favorable federal tax treatment of employee benefits. Thank you.

Sincerely,

Wm. L. Robinson

Director of Human Resources

the past, and might do so again. Scargill, an old believer in class struggle, has resorted to mine-gate violence in the hope of stirring ancient memories of repression. But a large number of miners are saying they won't strike without a democratic vote, which Scargill didn't dare hold this time.

What's the issue, if any? Only 12% of the industry's 100-million-metric-ton output produced almost all its $600 million loss in fiscal 1983. The board wants to close the uneconomic pits and encourage 20,000 miners to retire early with generous severance payments. With some of the savings, the board would invest $1 billion a year to boost mine productivity. It's a sensible program, but the union left-wingers, playing on old worker fears, have turned it into a political issue.

A Thatcher victory in the strike, the longest since the unsuccessful General Strike of 1926, would mean another crack in the class lines of the U.K., a blurring of the we-versus-them attitude of much of the population.

Listen to Roland Taylor, 29, a union member who crosses the picket lines to work at the profitable Shirebrook pit. "If you have three stores and one isn't making a profit, you close it. This is a business, after all."

Union miners ignoring the strike call **We-versus-them isn't working.**

Says Andy Brogdale, 28, at the same pit: "In 1974 this union was the strongest in the country. Now it's broken."

The coal board says working miners in four regions are ignoring the picketing and producing 25% of the industry's normal output. With unprecedented stockpiles already at the pits and power stations, the government predicts the strike won't hit the power supply until early next year. By then, more miners will probably drift back to their $250-a-week jobs.

Shrewdly, Prime Minister Margaret Thatcher has not yet used her labor laws, which ban secondary picketing (i.e., union members picketing away from their own mines). She thus has avoided inflaming other unions. She knows the dock strike wasn't broken by court orders, but by angry dockers and truckers who wanted to work. Nor is she likely to allow face-saving concessions to the union. The union wanted a fight, and she gave it one.

At the entrance to Cortonwood colliery, where it all started in March, shifts of pickets man a strike hut aptly named The Alamo. Don Keating, whose father and grandfather worked in the mine, says defiantly: "This is our last stand." Soon he may be more sad than defiant.

Maggie Thatcher has given the coal mining union its rope: The union is conveniently hanging itself. ■

The corporate income tax is to blame for a lot of what Congress complains about. Here are some leading proposals for reform.

The corporate income tax—who really pays?

By Susan Lee

IF CONGRESS IS SERIOUS about tax reform, it will have to tackle the corporate tax mess—a maze of deductions, exemptions and credits, and a system that is almost perfectly designed to hinder productive economic endeavor.

Efforts to reduce some of this madness have led to tax relief that has, in turn, narrowed the tax base. This fiscal year, for instance, only 9% of federal revenue will come from corporate taxes, as opposed to 17% in 1970. Moreover, the loopholes generate distortions, inequities and complications that violate the standards of an ideal tax system *(see box)*.

Among other bad features, corporate taxes penalize equity investment by hitting dividends twice, taxing the money as corporate income and again as personal income. At the worst, a high-bracket person in a fully taxed corporation would pay close to 75% on that portion of earnings paid as dividends.

While congressmen grouse about overleveraged ... leveraged ... buyouts, they have countenanced a tax system that encourages them. Because of the double taxation of dividends (plus the fact that interest on debt is a deductible expense), borrowed capital is much cheaper than equity capital. Most LBOs involve substitution of debt capital for equity capital. Thus they are, in effect, subsidized by the taxpayer.

Happily, moves to redesign the personal income tax *(see* FORBES, *July 16 and July 30)* have spilled over to the corporate tax. Thus, it's likely that the reform expected early in 1985 will include a fix for corporate tax.

Two of the hotter options involve so-called flat-tax plans: the Bradley-Gephardt bill introduced by Senator Bill Bradley (D–N.J.) and Representative Richard Gephardt (D–Mo.), and the Kemp-Kasten bill introduced by Representative Jack Kemp (R–N.Y.)

How it should be, and how it is

The goal of any tax system should be to raise revenues efficiently, fairly and simply. By these standards, the corporate income tax is a mess. Consider:

Efficiency: Here, the corporate tax flops on four grounds. Investment flows should go to projects with the highest rates of return. But a separate tax on corporations, in addition to the tax on dividends paid by shareholders, lowers aftertax rates of return relative to the noncorporate sector. Thus, the corporate tax biases investment flows toward the noncorporate sector.

Within the corporate sector, the double taxation of dividends creates an incentive for corporations to retain earnings. While there's nothing wrong with retained earnings per se, efficiency would be better served if the decision on how much to keep and how much to pay were unclouded by tax considerations.

So, too, the double taxation of dividends favors debt over equity capital, particularly because interest payments are tax-deductible in business.

And last, the uneven taxation of investments—favorable depreciation schedules for equipment and machines relative to structures—directs money to those tax-favored projects.

Equity: a double loser. Taxing retained earnings at corporate rates unfairly taxes individuals whose personal rates are below corporate rates. And the existence of loopholes violates the principle that entities with identical incomes should pay identical taxes.

Simplicity: total failure. Figuring corporate tax liabilities is nothing if not complicated.—S.L.

and Senator Robert Kasten (R–Wis.).

Bradley-Gephardt lowers the corporate rate from the current maximum of 46% to a flat 30%. A lower rate is, of course, a friendly gesture toward business. But Bradley-Gephardt also contains some less friendly measures. It would raise the business capital-gains tax from 28% to 30%, with no indexing for inflation. It would be less generous in depreciation allowances (schedules would be extended from the current 3-to-15 years to 4-to-40 years), and it would end the investment tax credit along with the exclusion of certain fringes.

Like Bradley-Gephardt, Kemp-Kasten lowers the top corporate rate to 30% and eliminates most tax credits and preferences. Unlike Bradley-Gephardt, Kemp-Kasten extends a friendly hand toward small businesses. It offers a lower rate of 15% on taxable income up to $50,000. More accommodating, it would also reduce the business capital gains to 20%, with indexing, and would retain the current accelerated depreciation schedule. Less accommodating to business, however, Kemp-Kasten would repeal the investment tax credit.

Neither measure remedies the favored treatment of debt over equity financing. (These penalties on equity capital would, however, be reduced by virtue of the lowered tax rates called for in the proposals.)

A third alternative, a bill to levy a value-added tax on business, was introduced by Senator Dennis DeConcini (D–Ariz.). Based on the work of economists Robert Hall and Alvin Rabushka, it offers a totally different approach from the current system, by shifting a lot of the tax burden away from capital and toward labor.

The VAT proposal would tax gross sales minus two categories: the cost of goods and services purchased for production (taxed earlier on other businesses) and wages, salaries and pensions (taxed later at the household level). The tax would be one flat rate of 19%. That is lower than Bradley-Gephardt or Kemp-Kasten because DeConcini would tax many items currently untaxed (fringes like employer contributions to pensions and Social Security), and would eliminate deductions for interest payments on debt. Dividends, interest and rent, now taxed as personal income, would also be taxed at the business level.

As for depreciation, the value-added tax proposal also offers something new: a 100% first-year deduction on all outlays for plant, equipment and land. Equally favorable, capital gains would be taxed at the low 19% rate and only at the business level.

Thus, the DeConcini proposal would abolish the double taxation of dividends, while the immediate expensing of investment would eliminate the double taxation of business savings. The initial investment—which is, after all, savings—would go untaxed, although returns would be taxed as they are earned.

Should there even be a corporate income tax? Isn't this tax simply passed on to the ultimate consumer? Nobody really knows. As economist David Bradford points out, "Only one thing is for sure. Business does not pay." The possible real victims are shareholders, as legal owners of the corporations; consumers, as purchasers of tax-inflated goods or services; and/or employees, as receivers of tax-reduced wages and salaries. This, of course, is a political advantage in the tax. Since no one is certain who pays, there is little organized opposition to the tax. To the tax-leviers it is a victimless crime.

From time to time, many business people (and some economists) have suggested the corporate tax be abolished altogether, usually through the integration of corporate and personal income taxes. Under integration, both dividends and retained earnings would be attributed to—and taxed at—individual stockholders' personal income tax rates, thus ending the double taxation of dividends.

But Congress has been loath to consider such a change for two simple (for Congress) reasons. The first is diminished revenue. Abolishing the corporate tax would allow income attributed to tax-exempt institutions to escape taxation altogether, and would permit shareholders

PACKAGING SERVICE CORPORATION OF KENTUCKY

3001 WEST KENTUCKY STREET
LOUISVILLE, KY. 40211
MANUFACTURERS AND CONVERTERS OF NONMETALLIC PRODUCTS

P.O. BOX 11519
PHONE 502/778-5565
DESIGNERS AND ENGINEERS

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee Subcommittee on Taxation and Debt Management.

By: Packaging Service Corporation of Kentucky

It is the considered opinion of the management of our organization that the socialization of the United States by the Congress and the Senate of the United States for the purpose of their members to be re-elected year after year has created a situation under which no one can start and build a business without the small tax incentives presently available to those who wish to build commerce, serve the needs of the populace and function in a historically traditional manner.

With the taxes in this country running at a rate of nearly 700 billion dollars a year (See chart attached) it would be impossible for any business to exist, large or small, without tax incentives.

This company has used employee stock ownership from it's beginning in 1959 to reward willing and able employees and attract people who are willing to work with the long-term view to retire on well-earned profits.

When the formalized statutes permitting Employee Stock Ownership Plans were passed, our company adopted one as a means of giving incentive to everyone in our company to save and build for the future. To categorically deny and change such a plan, which is at best minimal, would not only be criminal but catastropic to our company.

The Social Security System is "bankrupt" and all our employees know it. Their only hope to keep up with inflation and rising living costs caused by ill-considered and ineptly handled social welfare spending of our Congress, is our ESOP Retirement Plan.

In a recent publication concerning the Boy Scouts of America it is reliably asserted that were the organization's work done by a government agency, the cost would be 30 times greater than it is now.

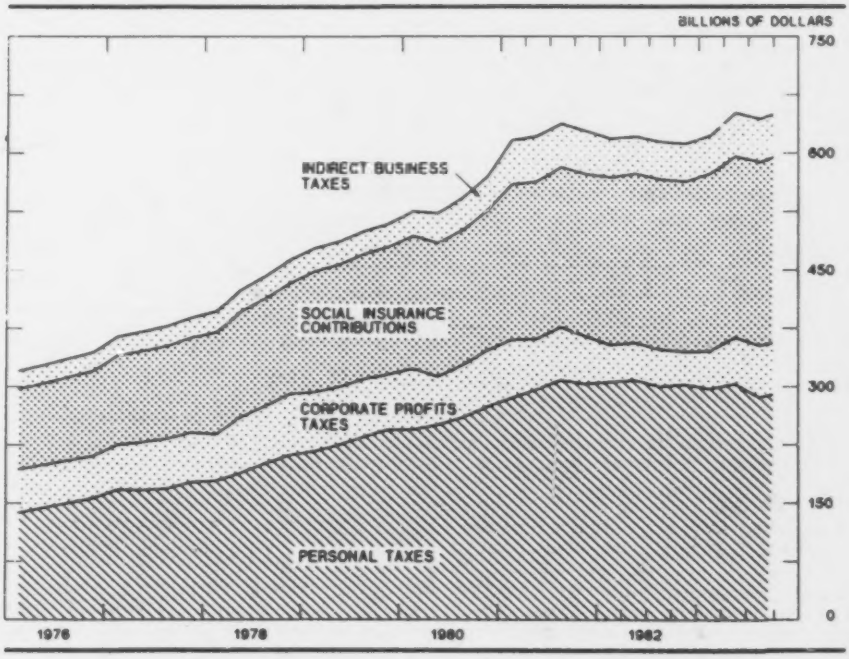
You can take away tax incentives only if the graduated income tax is repealed and everyone is taxed at the same rate and that rate be no more than 30% of the gross national product. That is the lesson of history, in Egypt, Greece, Rome, China and our world today.

Business creates jobs but that is not its purpose. Its purpose is to supply customers with a better and better product at a lower and lower price. It would do so today if it were not fettered by unconscionable taxation and regulation. The lessons are in front of us, the Eisenhower years, the recent years of President Reagon's efforts to lower the tax on everyone. "None are so blind as those who will not see."

Pg. 21: The Financial Forecast Letter -Aug.,1984

We believe the best part of the supply-side tax-cutting ideas will stay in place, such as the personal income tax cuts. You can see below how the Government's "take" from personal income tax levies has now turned flat. Where Kemp and some of his allies have gone wrong is in thinking that rapid growth can only occur with fast growth in the money supply. Kemp has all but demanded a higher inflation rate. The truth is that the greatest growth in history came in 1866 to 1896, a thirty year period marked by steady DEFLATION!

FEDERAL GOVERNMENT RECEIPTS
NIA BASIS
SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



PACIFIC MUTUAL
PACIFIC MUTUAL LIFE INSURANCE COMPANY

OFFICE OF CORPORATE RESPONSIBILITY

700 NEWPORT CENTER DRIVE
P.O. BOX 9000
NEWPORT BEACH, CALIFORNIA 92660
TELEPHONE (714) 640-3014

WRITTEN TESTIMONY OF PACIFIC MUTUAL LIFE INSURANCE COMPANY REGARDING THE HEARING ON FRINGE BENEFITS ON JULY 26 AND 27, 1984 BEFORE THE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT.

Pacific Mutual life Insurance Company, headquartered in Newport Beach, California, employs approximately 1,900 people throughout the United States. Additionally, we provide life and health insurance protection to thousands of other employees. Our own employees and nearly 800 retirees and former employees benefit from tax-favored pension plans, health insurance, life insurance, disability insurance, and incentive savings plans. These fringe benefits offered by Pacific Mutual are provided without regard to level of compensation or sex.

Congress established the favorable tax status for fringe benefits for very good reasons. Those reasons are still valid today. Employers can and should be induced to provide adequate levels of life, health, and pension security for their employees. The majority of American workers receive such protection from privately offered plans. To tamper with this successful and growing trend would prompt detrimental changes in the levels and types of protection made available to all employees.

Much attention in recent years has focused on proposals to tax employer-paid employee benefits as earned income. Presumably such a tax would raise a substantial amount of new revenue to slightly offset the large federal deficit. We at Pacific Mutual agree that the federal deficit is a significant threat to our future economic recovery. Clearly the magnitude of the deficit will require the Congress to further curtail expenditure increases as well as develop new and equitable sources of additional revenue.

A tax on fringe benefits would do little to ease the deficit. It would, however, create inequities among workers in different regions of the country where health care costs vary significantly. Additionally, it would impose a greater burden on the middle and lower income worker and the aged.

Our record of management of such government programs as Medicare, Medicaid, and Social Security suggest that a National Health Insurance Program would be ill-advised and financially unfeasible. Tampering with the current system of employer-offered health benefits will only jeopardize the status quo and heighten pressures for national insurance.

Employer-sponsored health plans covered 162 million Americans under age 65 in 1982. Group life insurance in force in the United States totalled $1.7 trillion in 1983. Among workers at middle-sized to large companies, 96 percent are covered by group life insurance. Seventy-two percent of American workers will receive employer-provided, private

pension benefits at retirement by the year 2007, significantly easing current pressures on the Social Security system. This is a report card of which Congress should be proud.

Employer-provided fringe benefits have greatly enhanced the quality of life for almost all American workers while also enabling them to obtain protection from health and life threatening crises. Congressional tax policy regarding these benefits has been a tax expenditure of equal or even greater importance than the favorable tax treatment of mortgage interest.

With the encouragement of Congress, private enterprise has developed an effective and efficient method of meeting the basic needs of employees through the employee benefit system. This system should be protected and nurtured. Government works best when it can leverage its influence to encourage the private sector to meet these important employee needs. The alternative is direct government involvement in providing a service which it is ill-equipped to provide and unable to afford.

SENATE FINANCE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

HEARINGS ON EMPLOYEE

FRINGE BENEFITS

STATEMENT OF HAL BOEL

VICE PRESIDENT - FEDERAL RELATIONS

PACIFIC TELESIS

August 13, 1984

STATEMENT OF HAL BOEL

My name is Hal Boel and I am Vice President - Federal Relations for Pacific Telesis. I appreciate the opportunity to submit my remarks on behalf of Pacific Telesis and its subsidiaries to the Subcommittee on Taxation and Debt Management. The taxation of fringe benefits is a matter that we regard as extremely important to the Corporation and to our employees.

Pacific Telesis is opposed to any attempt to tax employee benefits for many reasons. Favorable tax treatment for employer provided fringe benefits was implemented to encourage those employers to develop benefit programs that would protect and provide for employees and their families. Employees have benefitted from these programs through better medical, dental and vision care that the great majority either couldn't or wouldn't normally be able to afford. If tax incentives for employers to provide employee benefits are eliminated, serious consideration must be given to what will replace these programs. It is unrealistic to believe that we are about to roll back the considerable progress made over the years and start requiring employees to provide their own coverage. The other alternative would be to use programs directly administered by the federal government.

Tax incentives to business represent a far more efficient method of providing for these programs. Taxes have traditionally been used to provide for social programs. It would seem inconsistent to say that the tax code, and the exemptions it provides, should not likewise be used to the same advantage.

Undoubtedly some of the expansion of tax free benefits can be linked directly to an increase in Federal income and social security taxes. However, Pacific Telesis has, as have many other employers, recognized that this could have been a combination of the treatment of some benefits and faulty plan design. That is one of the reasons we are presently redesigning our programs and actively considering cost sharing with our plan users. The Rand Study on Health Care Cost Containment reached that very conclusion and pointed out that certain preventative programs for employees were very effective in reducing overall health care costs. At the very least, tax incentives for health care programs that aid in the early identification of disease should not be discontinued.

Pacific Telesis supports any and all restrictions placed on abusive employee fringe benefit programs and would be willing to participate in any review of existing rules and regulations concerning the fair implementation of tax incentives. Such abuses do not represent the social interests of the citizens at large and, in fact, often only provide for a select group. Pacific Telesis has only one health care benefits program. It applies to and benefits all employees, regardless of position. It does not, and will not, favor only the highly paid or any

other select group. We are concerned that all of our employees enjoy adequate health care protection, as well as other fringe benefits. Congress must realize that it will be the middle and lower income people, not the highly paid employees, who will suffer from the discontinuance of such programs. They can least afford medical coverage and will avoid preventative programs in the present interest of saving money. This has been shown to ultimately increase the cost of health care through hospitalization that could have been avoided with early identification of health problems.

Congress should consider the implementation of a national employee benefit policy. But that policy should not be driven solely by tax considerations. Other social and economic objectives must be recognized. Pacific Telesis is just beginning to establish itself as an independent company. We are successfully attracting young, creative, energetic professionals to help us run our business. Part of that attraction is what we can offer our employees in the area of health care planning and other fringe benefits. Without the ability to offer these programs, the cost to the company to provide the financial incentive to join our corporation would be unreasonably high.

A national policy would provide the stability essential to effective planning by employers. Only through a cooperative effort between business and government can we deal with the rising costs of health care, the social policies inherent in the provision of non-discriminatory, preventative health care programs and the problems of the federal deficit. Discontinuing

tax incentives for employee fringe benefits is not the answer. If benefits are not provided by employers, then the government will have to step in and do so. If government provides the benefits, business will have to pay for them anyway through increased taxes ultimately passed on to the citizens.

In summary, Pacific Telesis urges Congress to fully consider the impact of discontinuing these tax incentives before deciding that this is the only answer. We encourage you to implement a much needed national policy and allow employers to redesign their plans before summarily removing incentives to effectively plan for full health care cost containment. Pacific Telesis believes the responsible planning of these programs, based on some stable, national policy can achieve the purpose for which the incentives were designed while, at the same time, help in ultimately reducing costs for all concerned, including government.

JAMES W. PEACOCK, JR.
1536 CAVE ROAD N.W.
ATLANTA, GEORGIA 30327

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room 219
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Jim Peacock, Jr.

James W. Peacock, Jr.
1536 Cave Road, N. W.
Atlanta, Georgia 30327

Submitted as Part of the Record of the
Hearings on Employee Fringe Benefits
Held on July 26, 27 and 30 By the
United States Finance Committee,
Subcommittee on Taxation and Debt Management

By: James W. Peacock, Jr.
1536 Cave Road, N. W.
Atlanta, Georgia 30327

Tax Incentives And The Private Pension System

I maintain that the private pension system is an integral and vital part of our society and that it will not long survive without existing tax incentives, such as:

- deductibility of contributions to qualified plans
- tax exclusion of trust earnings until time of distribution

My position on this subject is not the product of mere generalization but results from many years of practical experience (as a professional engaged in the day-to-day administration of employee benefits trust accounts) in helping to create various retirement programs, providing services to them and paying benefits to retirees and their beneficiaries. We know from this experience the following:

- Realistically, few employers could or would provide retirement programs for employees without deductibility of contributions

- Realistically, few employees could or would systematically save enough money to meaningfully supplement social security benefits at retirement age without the benefit of employer-sponsored programs

One of the primary goals and aspirations of working people in this nation is to achieve economic security and financial independence at retirement age. The collective efforts of many people striving for this goal have made our economy productive and innovative. The private pension system has been and is a dynamic and effective ingredient in reaching this objective for the great majority of American workers.

I think any efforts to dismantle or significantly alter the private pension system are ill-considered. The system is economically efficient, effective and enjoys the confidence of its users. It eventually pays the Treasury for its tax breaks in the form of taxes on distributions to retirees. Consequently, the system only causes tax collections to be postponed, not forgiven.

To pass legislation hampering the growth or effectiveness of the private pension system would only accellerate the near-future problem of providing the average American with a decent and dignified way of life during his retirement years.

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
345 Park Avenue
New York, New York 10154

Executive Office

August 10, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building - Room 219
Washington, DC 20510

Dear Mr. DeArment:

Enclosed please find 25 copies of a statement by William A. Dreher, a principal of our firm, for inclusion in the record of the hearing that the Senate Finance Subcommittee on Taxation and Debt Management recently held on tax treatment of employee fringe benefits.

Thank you for your consideration. If you need any further information, please call me collect at 212-872-6576.

Very truly yours,

Charlotte P. Armstrong

Charlotte P. Armstrong

Enclosures
CPA:fm

STATEMENT OF WILLIAM A. DREHER

PEAT, MARWICK, MITCHELL & CO.

Submitted to the Senate Finance Subcommittee on Taxation

and Debt Management

in Connection with the Subcommittee's Study of the

Tax Treatment of Employee Fringe Benefits

August 10, 1984

Mr. Chairman, I am William A. Dreher, a principal of Peat, Marwick, Mitchell & Co. I am partner-in-charge of our firm's human resources consulting practice and also a member of the firm's tax practice committee. I welcome the opportunity to respond to the request of the Senate Finance Subcommittee on Taxation and Debt Management for statements of views on the tax treatment of employee fringe benefits.

Peat Marwick is one of the country's largest and most diversified public accounting and management consulting firms with a professional staff of over 12,000 operating out of more than 100 offices throughout the U.S. We provide audit, tax, and consulting services to a wide range of clients -- large and small, public-sector and private-sector, and profit-making and nonprofit -- throughout the United States. Our human resources consulting services include compensation and benefits among the other disciplines that comprise the full spectrum of human resources concerns, and our clients in this area mirror the diversity of the firm's clients generally.

To assist its consideration of the tax status of fringe benefits, the Subcommittee has posed six questions which commentators are requested to address. These questions, and

our responses to each, follow. For purposes of this discussion, as seems consistent with the questions themselves, we define fringe benefits to include traditional economic security benefits -- such as life insurance, health care and disability benefits, and dependent care assistance -- as well as the benefits that will now be specifically exempt from income and employment taxes under Public Law 98-369, the Deficit Reduction Act of 1984. We also define fringe benefits to include benefits under retirement income and asset accumulation plans, on which taxes are deferred until benefits are received.

1. Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

Public policy in the United States has long endorsed the provision of fringe benefits for employees at all levels in all occupations. To the extent benefits are government-sponsored, they have come to be viewed as part of the social contract; to the extent benefits are employer-sponsored, they are part of the employment relationship. They are matters of expectation and reliance both in the civic and economic context. The partnership between public (mandated) benefits and private (discretionary) benefits is a proven effective way to meet individual needs and achieve a variety of agreed social objectives, including protection against loss of earnings, ready access to quality health care, retirement income and, until recently, the opportunity to obtain additional training and education.

Given the desired results, the tax law should encourage employers to provide fringe benefits. Not to do so would be counterproductive. Except as market forces might otherwise dictate, employers would cut back on the cushion against adversity -- unemployment, illness, disability, and death -- that they now provide for all

employees. The goals of worker protection and satisfaction, however desirable, are not alone sufficient motivators for employers to provide benefits. Financial incentives are needed as well. Without them, the burden on social programs would increase, ironically at a time when the cost and cost-effectiveness of such programs are under serious scrutiny. Ironically also, cuts in employer protection -- especially health care coverage -- would fall hardest on low-income workers, who are least able to afford to buy individual protection. This would simply make more people dependent on public entitlement programs and increase the cost of these programs.

Tax laws that encourage employers to provide fringe benefits have historically served the public interest, as the following examples illustrate.

Example I: Health Care

Not only have traditional private-sector approaches resulted in a broad level of health care coverage for the general population (see our response to question 3), but in recent years flexible benefit programs have helped to slow the rate of increase in health care costs.

CONTROLLING BENEFIT COSTS
HEALTH CARE

	INCREASE IN PER CAPITA COSTS	
	FLEX POPULATION	NON-FLEX POPULATION
AMERICAN CAN	9.5%	26%
PEPSICO	10%	17%

This reduction in the growth of health care costs is directly attributable to employees electing less expensive forms of coverage in order to use their benefit dollars in other areas, some of which are taxable, with a net revenue gain for the Treasury. The following chart shows the shifts in enrollment that occurred under the flexible benefit program at American Can Company.

FLEXIBLE BENEFIT ENROLLMENT

	PERCENTAGE OF POPULATION		
MEDICAL	1979	1983	1984
CORE: 80% $200/400 DED.	5%	10%	12%
A1: 80% $75/150 DED.	1	15	33
A2: 90% $100/200 DED.	22	16	19
A3: 100% $100/200 DED.	61	50	31
A4: 100% BASIC-80% MAJ. MED. $50/100 DED.	10	6	0
A5: HMO OPTION	1	3	5

In 1979, the first full year that American Can's program was in operation, 71 percent of the employee population elected options that covered virtually 100 percent of their medical expenses. By 1984 only 31 percent did.

To curtail such programs, at a time when rapidly rising health care costs represent a significant social and fiscal problem, makes little sense.

Example II: Dependent Care

Tax-favored treatment for dependent care expenses has enabled many parents to work, thus reducing the need for the government to support or assist them and their families.

Dr. Deanna Tate, chairman of the Child Development and Family Living Department at Texas Women's University, recently completed a study of three companies that offer day care benefits to employees. Her cost-benefit study was able to determine the impact of day care benefits on productivity and profit.

The findings represent dramatic affirmation that day care benefits are good for employers, employees, and society as a whole.

- After implementation of a child care benefit one employer found that annual turnover declined from 40 percent to 7 percent, and absenteeism dropped from 10 percent to 1 percent.

- Child care saved each employer a substantial amount of money because of lower absenteeism and turnover. For every dollar spent on child care, the savings were:

Company	Savings per Dollar Spent
Textile manufacturer	$6
Print shop	$4
Hospital	$3

An increasing number of companies are taking advantage of its tax-favored status to offer child care to their employees. These companies include:

American Can Company

The Ford Foundation

IBM

Proctor & Gamble

Polaroid Corp.

The benefits are clear. Employers save money and have more satisfied employees; employees have access to child care that they otherwise might not be able to afford; the Treasury obtains higher tax revenue, because parents who otherwise would have to remain at home and personally care for their children can go to work, and the costs for welfare and other forms of public support are reduced as single mothers are able to earn.

As an employer of more than 14,000 individuals, in every state of the Union, and as independent consultants to clients with greatly varied workforces, we strongly support the provision of the broad range of currently available fringe benefits, on the basis of employer and employee incentives. Employees must be protected against certain universal financial risks -- retirement, unemployment, illness, disability, and death. We believe that current types and levels of incentives are appropriate and adequate to encourage this social objective. However, in this era of diversity and disparate needs, we believe strongly that employers should also have latitude to accommodate different conditions and different employee needs and preferences through flexible compensation arrangements such as cafeteria plans

under section 125 and cash-or-deferred plans under section 401(k) of the Internal Revenue Code. Tax incentives for employer contributions are essential to maintaining broad-based benefit plans, and tax incentives for employee contributions are essential to controlling employer costs under these plans, promoting individual saving, and ensuring a range of useful benefits for a diverse workforce. Significantly also, certain benefits -- child adoption, for example -- serve an important social purpose and, at the same time, reduce the need for public expenditure. Public policy should encourage such useful initiatives with appropriate incentives.

2. What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

We note with approval the features of the existing mechanism, which operates effectively to encourage or ensure broad coverage by employer-provided benefit plans: (a) nondiscrimination requirements for participation, contributions, vesting (as applicable), and benefits, (b) funding requirements and limitations, (c) limitations on employer deductions, and (d) percentage or dollar limitations on benefits and contributions for any individual. Just as clearly as this mechanism serves the social purpose for which it was conceived, its disruption could spell the sharp decline, if not the demise, of broad-based employer-sponsored benefit programs. A recent survey of 400 chief executive officers confirms this prospect, with 78 percent indicating that their companies would cut back on benefits whose tax-favored status is ended. Educational assistance benefits are a vivid "real world" illustration of this point.

Under Code section 127, many employers provided educational assistance --tuition, fees, and required text books -- and employees were not taxed on this assistance. By its tax-favored status, this benefit helped to achieve two major social goals:

- Employees, especially the lower-paid, had the opportunity to obtain education and training that prepared them for more responsible positions and even new careers. At a time when our basic economy is undergoing enormous change and structural unemployment faces thousands of employees in a variety of shrinking industries, such training and retraining are essential.

- Racial equality was directly promoted, since many employees using educational assistance were minority group members who never had the opportunity to obtain an advanced education before entering the workforce. The experience of the Hartford, Connecticut school board is noteworthy. During the last two years, 25 professionals have become full teachers after completing their college education under an employer-sponsored educational assistance program. All but one of these were members of a minority group, and as paraprofessionals their highest salary potential was $9,000 per year.

Unfortunately, section 127 expired on December 31, 1983. The result is that many employers have begun to eliminate their educational assistance plans. Even assuming that the elimination of tax-favored status would bring an immediate increase in tax revenue, we believe that in the long-run revenue will actually be lower, as employees without the aid of this benefit are unable to qualify for higher paying, more responsible jobs. Since educational assistance benefits represented only an estimated 0.2 percent of the average company's payroll expense, the

elimination of tax-favored status is a classic case of the government "biting off its nose to spite its face."

3. Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

Based on our experience with a large number and variety of employers and benefit plans and on our analysis of extrinsic data (e.g., tabulations by the U.S. Chamber of Commerce and the Employee Benefit Research Institute), we are convinced that the existing rules and safeguards ensure the availability of benefits across the board, at all earnings levels, on a nondiscriminatory basis. Indeed, the evidence refutes any allegations to the contrary. Predictably, because of their predominance in the workforce, employees at low- or middle-earnings levels are the largest proportion of individuals covered by employer pension and health care plans. Thus, EBRI reports that in 1983, 76 percent of all employees covered by an employer pension plan, and 80 percent of employees covered by an employer health plan, earned less than $25,000.

Moreover, the value of these benefits based on actual utilization is distributed relatively equally among all major income groups, as indicated by the following charts.

Family Use of Health Care Services (Physician Visits) by Income Groups

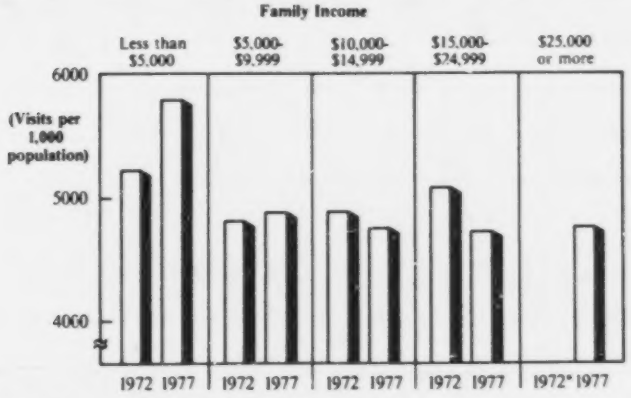


*Figure does not meet standards of reliability or precision.

Source: *Health United States 1979*, *op. cit.*, p. 132.

Proportionate Use of Hospital Facilities by Income Groups, 1972 & 1977 (per 1000 population)

Family Income	Hospital Discharges		Hospital Days	
	1972	1977	1972	1977
Less than $5,000	142.5	158.3	1,444.2	1,541.0
$5,000-$9,999	129.2	139.8	1,191.3	1,164.3
$10,000-$14,999	119.5	124.0	1,092.3	1,051.8
$15,000-$24,999	114.1	117.4	967.6	912.1
$25,000 or more	98.4	93.4	745.6	678.8

Source: *Health United States 1979*, *op. cit.*, p. 145.

In fact, lower-income individuals actually receive greater value than do high-income individuals since they utilize medical services more frequently.

However, to say that fringe benefit plans are broadly based is not to say that they are "fair." Fairness is defined by political philosophy and is very much a subjective judgment. Yet, both in concept and reality, employer-provided benefits are nonpreferential, nonexclusive, and nonelitist. Differential participation may occur -- although not necessarily because of earnings discrepancies -- but even voluntary contribution retirement programs (e.g., 401(k) and IRA) evidence significant participation across broad income strata.

4. Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross-section of employees at a lower total cost than if the Government provided the benefit directly, if employers provided the benefit on a taxable basis, or employees purchased these benefits on their own?

The existing tax incentives are effective in encouraging employers to provide the indicated benefits to a broad cross-section of employees. However, these methods really defy comparison with existing tax incentives, because they ignore the proliferation and variety of benefits and the emphasis on employee preferences that are today's realities.

The cost of discretionary employee benefits varies markedly from employer to employer. This variation is a function of industry, geography, and demography of the employer's workforce -- among other factors. Then too, employees have markedly different needs, one from another and as individuals at different times during their working lives. Employers have responded affirmatively to the differentiation of needs and the resulting pressure for new benefits and more choices, and tax incentives have been absolutely essential to their ability to do so.

Child-care assistance is a case in point: employers are able to accommodate the needs of working parents, a growing proportion of the workforce. In fact, the latest census data indicate that in approximately 62 percent of husband-and-wife households, both are employed. More dramatic is the fact that almost 17 percent of households today are headed by single parents who are women. Without child care assistance, many individuals who are parents, especially single mothers, would be unable to work and would require public sources of support.

If tax incentives are supplanted by government-provided benefits, the government would be pressed to offer the full spectrum of discretionary benefits currently available to meet the needs of today's diverse workforce. The government would take over all employee benefits and become the insurer of all individual needs, and employers would relinquish their role and responsibility in providing for the welfare of their own employees. Even if this result were desired, which we do not think it is, we know that it would not be cost-effective. Quite the contrary, in fact. The cost would be unaffordable and a further, unsupportable burden on the federal deficit. All the evidence suggests that when the government assumes private-sector responsibilities, it does so in a far more costly and wasteful manner. Benefits under broad-based social programs are necessarily redundant, and the programs also involve enormous administrative overhead, at great expense to the taxpayers.

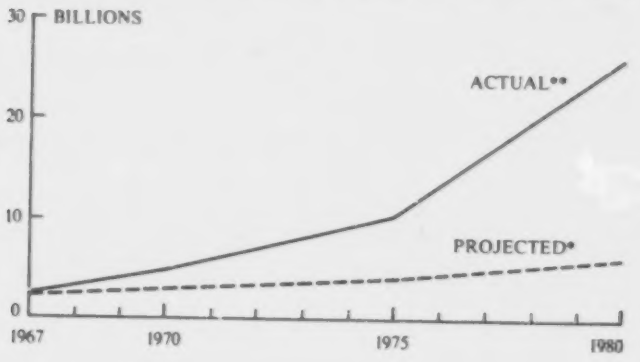
The recent outcry over prices paid by the military for readily available tools and hardware -- in some cases hundreds of dollars for a screw worth only pennies -- has helped ot focus attention on the issue of just how cost-effective government programs can be. The postal service is a classic example of a government agency that has failed to operate cost effectively. Since 1958, the price of a first-class

letter has risen over 600 percent, far more than the rate of inflation, yet first-class delivery is 10 percent slower than it was 15 years ago and Postmaster General William Bolger concedes that delivery may have been more reliable in the 1920's.

The growth of hospital costs under the Medicare program is another more relevant example.

Hospital Costs

1965 Projected vs. Actual Federal Expenditures on Medicare



*Calendar year basis
**Fiscal year basis

Note: Sources for figure are the publications cited in Footnote 7 plus *Health Care Financing Review*, September 1981, p. 42.

Not only have hospital costs under Medicare far outpaced official projections, but the rate of increase in health care expenditures has been substantially higher for the government than the private sector.

Rising Expenditures on Health Care by Sector, 1965 & 1980

Year	Total Health Expenditures	Gov't Health Expenditures (Billions of Dollars)	Private Health Expenditures
1965	41.7	10.8	30.9
1980	247.2	104.2	143.0

Source: *Health Care Financing Review*, September 1981, pp. 18 and 19.

From 1965 to 1980, total health care expenditures increased sixfold, but government spending jumped about ten times compared to a fourfold increase in private spending.

The available evidence clearly indicates that the cost of health care increases more rapidly when the government provides such coverage. In July 1978, the Journal of the American Society of Chartered Underwriters reported that between 1950 and 1967 hospital expenditures rose 213 percent in Canada and 148 percent in the United States; between 1950 and 1968 per capita health expenditures increased 912 percent in Sweden and 221 percent in the United States. In both Canada and Sweden medical coverage is provided through the government, while most medical care in the United States during this period was provided through the private sector.

High cost is only one of the likely problems associated with government-provided health care. The more significant issue is a decline in the quality and availability of services for the average person.

- In the Soviet Union, most medical care is provided "free" at time of receipt through a completely socialized system. But the Soviet Union really has two distinct medical systems. One, for the great majority of citizens, emphasizes quantity over quality; the other, for the nation's political, military, and other elites, seeks to provide medical care at a respectable Western European level, even if that requires bringing in foreign physicians to give consultations or, in some cases, to perform surgery.

  Cf. Vladimir Golyakhosky, "Soviet Medicine from the Inside. Bribery as a Doctor's Way of Life," Medical Economics, February 18, 1980, pp. 220-234.

- In Italy, a "free national health service" came into existence January 1, 1980. One account of the immediate consequences related: "Now Rome's hospitals are bursting at the seams. Nurses have been joining forces with patients to keep out new arrivals. Ambulances charge frantically across the city trying to find hospitals for their patients. At the hospitals of San Giovanni and San Camillo, beds jamming the corridors have been thrown out of the windows by angry nurses. Newspaper reports say patients have been pestered by mice, rats, bugs and even ants, as the staff found themselves unable to cope with overcrowding."

  "Italy's Health Service Bedlam," The Economist, February 9, 1980, p. 36.

- In Britain, the National Health Service (NHS) is now more than 30 years old. It is based on a system in which all inpatient and outpatient care by NHS personnel in NHS facilities is "free" at time of receipt, i.e., paid for primarily

by taxation with insurance premiums making a small contribution. British physicians have been divided into what are, with few exceptions, two mutually exclusive groups: general practitioners (GPs), who give outpatient care and refer patients to specialists and hospitals, but do not treat their patients in hospitals; and consultants (specialists), who focus on hospital care and are aided by a small army of specialists in training, those corresponding very roughly to residents and fellows in United States hospitals. The following quotation describes an unanticipated consequence of the NHS:

"If you live in the northeast of England and are admitted to a hospital, you will find that nearly every other doctor comes from overseas, most likely from Asia. The chances are much lower if you live in the west or southwest; in and around London they are roughly one in three ... In England as a whole, nearly a third of hospital doctors qualified overseas, but only 14 percent of general practitioners."

"Doctors, How's Your English?" The Economist, January 26, 1980, p. 26.

o Even the Canadian approach to national health insurance, often pointed to as a successful model, has resulted in a shift in the value of benefit expenditures from the poor to the wealthy. A 1978 study concluded:

"Finally, our study has sought to find out who actually pays for National Health Insurance. Our results here indicate cause for genuine alarm. We find that both the hospital and medical care parts of the program have been financed by displacement in the budgets of other social welfare spending

categories. While it has been shown that, in the short run, low-income groups seem to get somewhat more care than they would have been able to obtain before NHI, they are not the only groups consuming care under this program. Sixty cents of every dollar spent on these combined programs is taken from cutbacks in funds for aid to the blind and disabled, workmen's compensation, and family allowances. Such an arrangement seems inconsistent with at least some of the broader aims of all these programs."

Cotton M. Lindsay with Steven Honda and Benjamin Zycher, "Canadian National Health Insurance: Lessons for the United States," (Roche Laboratories, Nutley, N.J., 1978).

If, instead of providing coverage, the government were to tax employer-provided benefits, several results -- all undesirable -- could be expected: (a) if the cost for any benefit is the same irrespective of employees' earnings levels (as is true of health care coverage), then the tax burden of having to include the amount in income will tend to fall unfairly on lower-paid employees; (b) the employer might drop some benefits currently offered, creating unfortunate gaps in coverage; or (c) rather than be taxed, employees might elect not to purchase coverage, with the likelihood of detriment to their own well-being and of increased public expenditures to fill unmet needs. Finally, if employees are left to purchase benefits on their own, without the advantage of group rates, costs will be higher and coverage also will drop, with the same adverse effects noted.

The existing mechanism is the most rational, cost-effective, and equitable way of providing the type and level of benefits demanded by today's workforce and by broad social policy considerations.

5. How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

Tax incentives -- for employers and employees -- are a powerful spur to total compensation planning and provision of a broad range of useful benefits on a cost-effective basis. They also enable employees to maximize the purchasing power of their total compensation dollars -- within the limits of plan qualification or nondiscrimination requirements that ensure the availability of benefits at all earnings levels. Incentives allow employees the flexibility to fashion their own personal financial plan and to adjust that plan to different needs as circumstances change over their working lives. Compensation planning is significantly aided by incentives, and the more it can meet the benefit needs of employees, the fewer gaps in coverage there will be and the less likelihood of a vacuum for the government to have to fill. At the same time, benefits that employees need and use on a tax-favored basis can ease the upward pressure on wages and help to restrain inflation. Thus, incentives are totally supportive of agreed public policy objectives: they promote employer responsibility, employee well-being and self-reliance, and a sound economy.

6. Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

In our experience, when a choice of employment is available, the fringe benefits offered will be an important factor in the individual's decision -- and, as we have

noted, tax incentives will significantly influence the type and level of benefits that employers are willing to offer. More important, though, may be the fact that for some individuals fringe benefits, and thus incentives, are what makes work possible at all. An example, as we have already noted, is child-care assistance for working mothers. It seems thoroughly reasonable to expect that, as benefit needs and choices expand and the workforce becomes more sophisticated in this regard, fringe benefits and the opportunity to utilize incentives will become increasingly central to the employment decision.

In summary, we appreciate the opportunity to present our views and we strongly endorse the existing rules, which enable private employers, in partnership with the government, to meet the economic security needs of many millions of workers in an efficient, equitable, and cost-effective manner. Current practices help to advance public policy objectives for the health and well-being of our citizenry, they reinforce our country's commitment to free enterprise, and they encourage workers in a meaningful way to be more self-reliant. If we were, instead, to follow the pattern in Japan, where social and corporate programs are notably ungenerous, this would place the burden on individuals to save and provide for their own protection -- withtotally regressive results.

Finally, we do not think that erosion of the revenue base by incentives is as serious a problem as portrayed by some observers. Much of the revenue forgone in one form or at one time will come back to the Treasury in another form or at another time. And if tax incentives are removed, the revenue loss they represent under current policies will pale by comparison with the added burden on government expenditures of satisfying the resulting unmet needs through social programs.

Pennsylvania Lumbermens
Mutual Insurance Company
211 South Broad Street • Philadelphia, Pennsylvania 19107 • (215) 545-8375

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

I understand that Senator Packwood held hearings on Fringe Benefits on July 26, 27, and 30, and that he has asked for written statements from plan sponsors of as many companies as possible who are concerned about the future of employee benefits.

I believe strongly that our company, through private enterprise, has built an effective and efficient arrangement covering the needs of our employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its own needs, obviously government must. I believe the ultimate price to our nation, in such a case, will be greater.

A common mistaken impression concerning employee benefits is that these benefits are paid principally to highly paid employees. Actually, only a small percentage of the benefits under our employee benefit plans are for highly paid employees.

In summary, I believe that employee benefits are essential to the economic security of our workers, retirees and their dependents. Our workers would suffer if employer sponsored benefits no longer existed, or were curtailed, due to needless government interference.

Sincerely,

Harry L. Hundermark
ASSISTANT SECRETARY

HLH:emh

STATEMENT OF PENNZOIL COMPANY IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26, 27, and 30, 1984.

(1) Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

The Company believes that it is public policy to use corporate buying power to provide adequate benefits for its employees. The unions that represent a number of our employees also feel that this is public policy because they give benefits such as medical care, retirement, etc., very high priority in their bargaining programs. This has resulted in benefits that are oriented to meet employees' needs at each location within the Company. We feel it would be almost impossible, particularly for lower income employees to provide benefits such as medical care, dental care, defined contribution plans, defined benefit plans, with their own after tax dollars. The current tax laws provide adequate incentive to companies such as ours to provide competitive benefit plans for a wide sector of employees. It is obvious that these benefits meet employee needs because those that are voluntary within the Company have participation rates from 85 - 100%.

(2) What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

The Company believes that no further restrictions should be placed on fringe benefits. Current audits by the Internal Revenue Service on

501c(9) trusts, defined benefit plans, and defined contribution plans ensure that these fringes are broadly based and operate without discrimination. As a matter of fact, the restrictions that have been enacted, particularly to defined benefit plans, have only served to inhibit future growth and make these plans less popular. Yet the defined benefit type of plan provides the best opportunity for lower income employees to have an adequate retirement income and avoid becoming public charges.

(3) Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

The current rules as administered by the IRS and the Department of Labor are quite sufficient to ensure that benefit plans cover all employees uniformly.

(4) Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross-section of employees at a lower total cost than if the Government provided the benefit directly, if employers provided the benefits on a taxable basis, or employees purchased these benefits on their own?

The Company could in no way restrict its current benefit plans to certain levels of employees. In the open marketplace to acquire skills, health care, life insurance, defined benefits, defined contribution plans are necessary in order to compete in the labor market.

As indicated in question #1 above, negotiating benefits with unions ensures that the needs of employees are met in plan design.

(5) How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

This Company considers fringe benefits as indirect compensation and it must tie directly into the salaries and wages which we call direct compensation. Fringe benefits are an integral part of the Company's year to year compensation planning and budgeting.

(6) Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

It is clear to us that failure to have reasonably well balanced fringe benefit programs would seriously inhibit a company's ability to recruit skilled employees at all levels. In this sense, tax incentives do affect potential employees' choice of employment.

In addition to these questions, we have attached what we consider are informative statistics prepared in a format suggested by EBRI so that the Committee will have a basis for comparison. We appreciate, very much, the opportunity to submit this document for the Committee's review.

PENNZOIL COMPANY - All Active Employees # 8,682

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	$83,182,291	$9,582
Legally-Required Employer Payments	21,131,875	2,434
Social Security	$14,734,479	$1,697
Unemployment Compensation	1,798,514	207
Workers' Compensation	4,598,882	530
Other Payments		
Discretionary Taxable Benefits		
Time Not Worked (Vac., Holidays, STD, etc.)	$21,871,315	$2,519
Rest Period	Unknown	
Other Taxable Benefits		
Discretionary Tax-Favored Benefits	$40,179,101	$4,629
Defined Benefit Pension Plans	$11,650,428	$1,342
Capital Accumulation Plans	4,502,908	519
Disability Plans	2,012,258	232
Group Health and Life Insurance		
Active Workers	20,854,152	2,402
Retirees		
Other Tax-Favored Benefits	1,159,355	134

PENNZOIL COMPANY - ALL ACTIVE EMPLOYEES # 8,682

EMPLOYEE BENEFITS PRECENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries	Employer Payments as Percent of all Benefits
Total Benefits	36.2%	100.0%
Legally - Required Employer Payments	9.2%	25.4%
Social Security	6.4%	17.7%
Unemployment Compensation	.8%	2.2%
Workers' Compensation	2.0%	5.5%
Other Payments		
Discretionary Taxable Benefits	9.5%	26.4%
Time Not Worked (Vac., Holidays, STD, etc.)	9.5%	26.4%
Rest Periods		
Other Taxable Benefits		
Discretionary TAx-Favored Benefits	17.5%	48.2%
Defined Benefit Pension Plans	5.1%	14.0%
Capital Accumulation Plans	2.0%	5.4%
Disability Plans	.9%	2.4%
Group Health and Life Insurance		
Active Workers	9.0%	25.0%
Retirees		
Other Tax-Favored Benefits	.5%	1.4%

PENNZOIL COMPANY - ALL ACTIVE EMPLOYEES # 8,591

RETIREMENT PROGRAM AVAILABILITY, 1983

	Defined Benefit				Employer Capital Accumulation			
	Participate		Vested		Participate		Vested	
	#	%	#	%	#	%	#	%
	NOT AVAILABLE				NOT AVAILABLE			
$ 0 - $ 9,999	___	___	___	___	___	___	___	___
10,000 - 19,999	___	___	___	___	___	___	___	___
20,000 - 49,999	___	___	___	___	___	___	___	___
50,000 - 99,000	___	___	___	___	___	___	___	___
100,000 or more	___	___	___	___	___	___	___	___
TOTAL	8,591	100%	8,591	100%*	4,158	100%	**	100%

* 3,251 - Fully Vested
1,261 - Partially Vested
4,079 - Non-vested

** 558 - Fully Vested
3,300 - Partially Vested
300 - Not Vested

PENNZOIL COMPANY - ALL RETIRED EMPLOYEES # 4,298

RETIRED BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	#2,227	$9,488,410	1983
Defined Benefit Plan Retirees Survivors in Pay Status	# 481	$ (1)	1983
Defined Benefit Plan Vested Separate	#1,590	N/A	1983
Capital Accumulation Plan Retirement Age Distributions	#N/Avail.	$6,717,861 (2)	1983
Capital Accumulation Plan Termination Distributions	#N/Avail.	$6,717,861 (2)	1983
Retiree Health	#2,200	$N/Avail.	1983
Retiree Life	#2,200	$N/Avail.	1983
Retiree Other	# N/A	$ N/A	1983

(1) Included in the $9,488,410 figure.

(2) Total distribution for retired and terminated.

PERFECTION FINISHERS, INCORPORATED
P. O. BOX 210 • WAUSEON, OHIO 43567 • TELEPHONES (419) 337-8015
"Metalizing by high vacuum"

August 2, 1984

Mr. Roderick A. DeArment, Chief Council
Committee on Finance
Room SD-219
Dirksen Office Building
Washington, D.C. 20510

Re: Employee Benefit Hearings

Fringe benefits, whether it be vacations, breaks, paid sick leaves, workmans compensation, social security, retirement or medical and life insurance, are very costly for anyone in business today. Relief in any of these areas would make the United States more competive in the world market.

It is our belief that the employee must become more involved in paid sick leaves, workmans compensation and medical insurance by personally contributing out of pocket money toward their use. Perhaps, in this way employees will critically consider the abuse of such programs that exists in our workplace today.

Perhaps the Congress should consider taxing those who receive benefits on the above items, or perhaps also, allow employers to deduct from taxes those claims that are paid to employees.

We do not believe the government should provide health insurance to working people.

We are aware that without employer benefit programs now in effect, the employee's health would be greatly affected, adversely.

Our program of health care is negociated with the Union and is provided for all employees regardless of wages paid or sex of the employee. Dependant coverage is partially funded by the employee.

Our conclusion would be:

1- Involve the employee in funding the plan,

2- Additional tax relief or adjustment for fringes.

Sincerely,

G.O.Weaver , Ind. Rel.

STATEMENT OF PETROLEUM PERSONNEL, INC. IN CONNECTION WITH HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS

July 26, 27 and 30, 1984

Petroleum Personnel, Inc. and its management believe that we have a responsibility to our employees to make available to them and their families health, medical and financial security. In addition to providing our employees with financially secure career opportunities, we make available to all employees the following benefits:

A. Life insurance equal to or in excess of two times the basic annual wage or salary.

B. Accidental death and dismemberment insurance equal to the amount of life insurance.

C. No decrease in amount of life or AD&D insurance if there is a change in wages.

D. Hospitalization and other medical expense insurance.

This employee benefit program is made available on a shared cost basis, with the company paying at least half the cost, to all employees, regardless of sex, race, color or position within the company.

Because the company can purchase this protection at a lower rate than our employees can on an individual basis, we have chosen to provide this program because we consider these benefits and the protection they provide essential to the welfare of our employees and their families. Any changes in the tax laws which results in higher costs for the employer or employee for these benefits may force reduction of the level of protection offered by this program.

With the continuing rising costs of health care, we regularly face higher premiums and actively seek methods of cost containment. We have appointed a senior manager to conduct our safety program as one means of containing costs by increasing safety awareness and decreasing accidents and injuries.

We believe it is important that employers be encouraged to make available to all employees protection for themselves and their families. We appreciate the opportunity to make known our views to the Subcommittee on Taxation and Debt Management. We urge the Subcommittee to favorably consider the continuance of the Internal Revenue Code provisions which provide incentives to employers and employees alike in providing this essential protection to the American worker and his or her family.

PFIZER INC., 235 EAST 42nd STREET, NEW YORK, N. Y. 10017

EDMUND T. PRATT, JR.
Chairman of the Board

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219 Dirksen Senate
Office Building
Washington, D. C. 20510

RE: FOR THE RECORD OF THE SENATE FINANCE COMMITTEE
HEARINGS ON TAXATION OF BENEFITS

Dear Mr. DeArment:

I am writing to you in connection with the Senate Finance Committee's hearings on the taxation of benefits. Specifically, I believe that there are several key issues in this area which must be carefully reviewed from the perspective of the employee, the employer, and of the Government.

Over the years Congress has protected American workers through various statutes and regulations governing employee benefit plans. For example, the Employee Retirement Income Security Act of 1974 ensures, among other things, that employer-sponsored benefit plans do not favor the highly-paid employees. We are at a point, however, where there is a risk of regulating employer-sponsored benefit plans out of existence if the tax treatment accorded employers sponsoring these plans is made less favorable.

Tax laws should be structured to encourage employers to sponsor benefit plans that are made available to broad-base groups of employees. Current tax laws provide these incentives and, in addition, provide adequate safeguards to ensure equality of treatment for all employees participating in these plans. Since a balance between providing incentives to employers and providing equal treatment for employees has been created and maintained effectively by existing legislation, I believe that it would be unwise to adopt more restrictive measures. Therefore, it is important to review the consequences that might result if this balance is changed.

Currently, the costs of most employer-provided employee benefit plans are deductible by the employer. This affords an important incentive to employers to continue to maintain the plans. Increased taxation and regulation in this area can result in employers' decisions to terminate certain benefit plans since it would therefore be far easier

to provide the equivalent cost of the benefits as direct compensation to the individuals involved. This can result in unfortunate consequences for the vast majority of American workers.

For example, the current cost to Pfizer of providing medical and dental insurance is $2,300 per employee per year. This represents approximately 11% of the average base pay of our non-exempt employees versus less than one-half of one percent for the highest-paid employees. If Pfizer were to terminate its medical and dental plans and to add the $2,300 to the pay of each employee several unfortunate results might obtain:

- There is no guarantee that all employees would necessarily use the money to purchase substitute medical and dental coverage. Hence, there is the possibility that a number of employees may be faced with severe financial hardships should they or their families incur significant medical or dental expenses.

- Since Pfizer, like most employers, provides coverage for large numbers of employees, it can obtain more favorable rates for this coverage than individuals seeking to purchase similar coverage. Therefore, even <u>if</u> we could rely on employees to purchase substitute coverage on their own, it would cost each of them far more to obtain the comparable insurance coverage. Thus, this may be an incentive for employees to refrain from purchasing medical and dental insurance. Even if they do purchase it, however, the $2,300 may not purchase enough to afford them adequate levels of protection.

- Some might wonder then whether the Government could provide these same benefits directly at lower costs. To answer this one would merely have to review the escalation of costs in the private sector versus the greater rise in the cost of government-sponsored programs.

We have strongly supported President Reagan's advice that American workers be provided with incentives to save for their retirement years. Currently we provide an ideal vehicle for this in both the Pfizer Savings and Investment Plan and our U.S. Savings Bond program. In the former, employees may save up to 15% of their pay each year. To provide a strong incentive for employee savings, Pfizer provides a matching contribution -- $1 for each $1 on the first 2% of an employee's compensation, and 50¢ for each $1 on the next 4% of an employee's compensation contributed.

This employee savings incentive has produced noteworthy results -- over 90% of our employees participate in this plan. If the current tax treatment of employee benefit plans is altered, employees may be forced to utilize monies they currently can afford to save to purchase heretofore employer-provided benefits. As a result, participation in the Savings Plan may decline -- even to the point where the IRS removes its qualified status because the only participants left will be the most highly paid.

We at Pfizer have always maintained an egalitarian approach to employee benefits -- every employee is covered by the same benefit

plans. Our most highly paid employees could probably replace whatever coverage tax changes force us to remove but the vast majority of our employees may not be able to replace this coverage. It is precisely for these employees that our benefit plans were implemented, and it is these employees who will be harmed should the private employee benefit system be changed in the way proposed.

Accordingly, we would urge that the law not be changed to treat the employer-paid cost of life, disability, health care, pension or other benefits as income to employees, or to eliminate the deductibility of companies' expenditures for such payments.

Sincerely,

Edmund T. Pratt, Jr.

CD/MEB/48

Phoenix
Mutual Life Insurance Company

Corporate Headquarters • One American Row • Hartford, Connecticut 06115 •Telephone (203) 275-5000

WILLIAM B. MAC LACHLAN
VICE PRESIDENT
HUMAN RESOURCES
TELEPHONE: 275-5468

August 13, 1984

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dinksen Senate Office Building
Washington, D.C. 20510

Re: Hearing on Fringe Benefits

Dear Mr. DeArment:

Enclosed please find a written statement on behalf of Phoenix Mutual Life Insurance Company in accordance with the Finance Committee on Taxation and Debt Management Press Release 84-148 soliciting comments on fringe benefits.

Very truly yours,

William B. MacLachlan

Enc.

Phoenix Mutual Life Insurance Company which is the eleventh largest mutual insurance company in the country and employs 3500 agents and employees submits this statement in connection with the Finance Subcommittee on Taxation and Debt Management Hearing on Fringe Benefits held July 26, 27, and 30.

As a financial service company, Phoenix Mutual employees and agents are its most valuable assets. Primarily because of concern for the economic security of its employees and their dependents and secondarily because of a desire to attract employees and agents. Phoenix Mutual provides a complete program of benefits for its active employees and agents and its retirees.

Medical coverage is critical to all active and retired employees, agents and their dependents as the costs of health care continue to escalate. Without such coverage, many employees would incur serious financial hardships and would be forced to liquidate their assets in the event of major medical emergency. In some situations, these taxpayers might then be forced to seek government assistance.

In order to protect its active employees and agents and its retirees, Phoenix Mutual provides Blue Cross-Blue Shield and Major Medical coverage, along with the opportunity to elect coverage under one of several HMO's (health maintenance organization). Phoenix Mutual

pays 75% of the premium for these benefits while the employee and agent pay 25%. Substantially all medical expenses beyond deductible amounts. This commitment to cost sharing reflects Phoenix Mutual's philosophy that employees and agents are more cost-conscious when they understand the actual expenses incurred.

If Phoenix Mutual did not provide this coverage, employees as individuals would need to spend a considerble sum to duplicate these benefits. Even if the government were to provide the same level of medical benefits, employees would have to absorb some of the costs. Because individuals ..ould not believe that anything they could do would make a difference they would not have the same personal stake in cost savings and costs could escalate even more rapidly.

Dental coverage is also provided. This benefit which includes orthodontic treatment is supplemented by an on-site dental clinic which offers a comprehensive preventive care program free of charge. Such complete care is a result of Phoenix's recognition of the importance of good dental care to overall good health. Without dental coverage, many employees would postpone treatment until extensive immediate care was needed. The government could not provide this level of care on a cost-efficient basis.

If an employee becomes disabled either temporarily or permanently, the economic security and that of his/her family is protected by a salary continuance plan and a long term disability benefit. These benefits provide a continuing income stream while the employee is unable to work. If these benefits were not provided by Phoenix Mutual, the employee might then be forced to seek government assistance.

Phoenix Mutual's concern for its employees and agents and their dependents is evident in their committment to providing benefits at retirement. As the base of people supporting each individual receiving Social Security benefits continue to erode, the future availability of these benefits for current employees, agents and their dependents becomes more insecure. Private and pension benefits are important for the economic well-being of all employees and agents upon their retirement.

To meet these needs Phoenix Mutual provides a defined benefit retirement plan with a cost of living feature for its employees which ranked first in a recent survey of thirteen prominent insurance companies. Agents participate in a defined contribution retirement plan which also contains a cost of living adjustment feature.

Again to meet retirement needs as well as to provide a savings vehicle for major expenses such as the purchase of a home and college tuition, Phoenix Mutual offers its employees a thrift plan. As an

additional incentive to employees to save more for retirement, Phoenix Mutual is amending the thrift plan to allow for before-tax contributions allowed under IRS Sec. 401(k). The agent plan contains a voluntary supplemental savings feature similar to the savings feature offered to employees.

Such retirement programs are critical to the economic security of our employees and agents in their retirement years particularly in light of the uncertain future of Social Security. Without such employer sponsored retirement programs, most American citizens would have a sharply reduced standard of living level in the years to come. Instead of providing tax revenue through tax payments on retirement income from employer sponsored plans, these older citizens will be an additional drain on the already over-burdened tax system.

Death benefits are also provided to active and retired agents and employees. These benefits help ease the immediate enocomic burdens on dependents who would otherwise be ill-prepared to cope with the ecmotional and financial loss of a family member and wage earner. Because the level of savings in the United States is far less than in other Western nations, Americans generally would not have the rescurces to cope with major economic losses. Therefore programs providing death benefits are vital to active and retired employee, agents and their dependents who might otherwise be forced to seek government assistance in order to survive.

The benefits described above are provided by Phoenix Mutual not only as a means to attract employees and agents but more importantly because of concerns for the economic security of our agents and employees as well as their dependents. These benefits are provided to all employees and agents and are not paid principally to the highly compensated agents and employees. Furthermore, benefits are provided to all employeeds and agents regardless of their sex. More than one-half of the work force at Phoenix Mutual is female. Preference to the highly compensated or men is not a reality either in design or in fact.

If businesses such as Phoenix Mutual are unable to provide benefits to ensure the economic security of its agents, employees and their dependents, the burden will ultimately and inevitably fall on the government. Businesses are providing the needed benefits on a cost-effective basis. Any attempt by the governmont to fill these needs would be for more expensive. Because of the uncertain future of current entitlement programs like Social Security, employees would not have the same confidence in their economic security that they now enjoy. Therefore, it is imperative that the current employee benefit program not be dismantled is the name of greater tax revenues.

W D Bialock, FLMI
Senior Vice President
Group Division

Pilot Life
Insurance Company
PO Box 20727
Greensboro, NC 27420
Telephone Bus 919 299 4720

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirkson Center Office Building, Room SD-219
Washington, DC 20510

Re: Senate Finance Committee on Taxation and Debt Management - Hearings on the Taxation of Employee Benefits

Dear Mr. DeArment:

Pilot Life Insurance Company requests that this letter statement be included in the printed record of the Public Hearings on the Taxation of Employee Benefits held on July 26, 27, and 30, 1984, before the Senate Finance Subcommittee on Taxation and Debt Management.

Pilot Life Insurance Company is a North Carolina domiciled life insurance company underwriting employee welfare benefit insurance products and providing employee benefit services.

Group insurance and other employee benefits are essential to the sound health, welfare, and economic security of employees, retirees, and their dependents.

Almost all employee welfare benefit plans provide the employee coverage at no cost to the employee. All employees are provided coverage regardless of race, sex, creed, religion, national origin, or position within the company. In most plans the dependent coverage is elective and paid in part or in total by the employee.

Tax laws should be and are currently structured to encourage employer sponsored benefits. The present Internal Revenue Code tax provisions enable employers to provide employees, their dependents, and retirees the assurance that they will have economic security during sickness, disability, retirement, and in the event of death.

Employers with vision and compassion have responded to the needs of their employees and have built an employee benefit system that is responsible, effective, efficient, and non-discriminatory in meeting employees' needs through the provision of attractive employee fringe benefits. The private enterprise system best manages the cost of fringe benefit programs while at the same time employers are able to provide maximum personal support to employees. Current tax provisions properly encourage this employee benefit system.

The competitive system of providing employee fringe benefits, as it presently exists in private enterprise, is far superior to and more cost effective than any program that could be designed and administered by the federal government. Current tax provisions encourage private employers to provide for the needs of their employees so that a government mandated program is unnecessary.

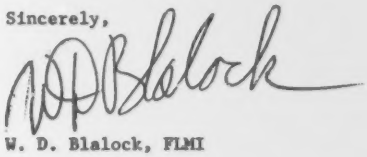
If the current tax provisions are substantially changed, the equitable provision of employee fringe benefits will be threatened. Employers may choose or be pressured to reduce or eliminate the level of coverage currently provided. Unnecessary hardships will befall employees and they and their dependents will suffer. Because of other personal or family financial pressures, lower salaried employees may find benefits totally unaffordable. In an emergency situation public support may become the employees only source to meet basic family needs. If government becomes involved, the ultimate price to our nation will be great.

If a governmental system of benefits were to replace the present private enterprise system, employers will be adversely affected because of: less competition in the market place; more costly and less efficient delivery of benefits; more administrative paper work to deliver benefits; less flexibility in choosing benefits; and less freedom in choosing the most efficient provider of employee fringe benefits.

The current private enterprise system must be maintained and strengthened. The present system is equitable, appropriate, and flexible in a way that cannot be duplicated by government sponsored, public programs. The private enterprise system must not be systematically dismantled and sacrificed in the name of greater tax revenues.

Pilot Life Insurance Company supports every effort to protect and retain present Internal Revenue Code provisions which allow employers to receive tax deductions for the cost of providing benefit programs and which allow employees to receive those benefits without paying taxes on their value. We oppose any effort to limit the incentive for employers to provide employee fringe benefits and to tax the employees who receive fringe benefits.

Sincerely,



W. D. Blalock, FLMI

WDB:bm

Reply to:
PINE HALL BRICK & PIPE CO., INC.
Lindsay Bridge Road
Post Office Box 836
Madison, North Carolina 27025-0836
Telephone 919/548-6007

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Dear Sir:

I would like to make some comments concerning the Public Hearings of July 26, 27 and 30, 1984 concerning Taxation of Employee Benefits.

Ours is a small company, with about two hundred twenty-five employees. We provide the "basic" employee benefits: health insurance, life insurance, weekly disability insurance, pension, vacations, paid holidays, jury duty pay, bereavement pay, call-in pay, continuation of insurance and related benefits during sick leave, daily overtime, and of course Social Security, Unemployment Insurance, and Worker's Compensation insurance. Specific details of each of these coverages has evolved, over time, through negotiations with the United Steelworkers of America, AFL-CIO, and Local Union No. 85-A. Of course, federal and state law also dictates provisions of some of these benefits.

In a state which is primarily non-union, we find that we pay our employees a great deal more than our non-union competitors. Our benefits are somewhat better, too. When these two costs are combined it is somewhat more difficult to meet our competitors in the marketplace.

CONTINUED - - -

We sometimes find we must forfit opportunities for sales when the competition gets really tough, and the prices get very low.

In spite of this problem, I must admit there are certain benefits which our group purchasing power provides which it is doubtful the individual employee could - our would - buy on an individual basis.

As a case in point, we purchase group life term insurance at a cost of sixty-three cents per thousand dollars per month. We provide six thousand dollars of coverage for each hourly employee, plus an additional six thousand dollars of accidental death coverage, at a cost of nine cents per thousand dollars per month. In past years, upon the death of some employees, I have found this to be the only life insurance the employee has.

We purchase group health insurance for all regular employees. It is not cheap - and it keeps getting more and more expensive. However, when an employee leaves our group, and begins to seek individual health insurance coverage, they find it costs much more than our group coverage, and the benefits are usually not as good.

The union frequently argues that we can purchase, with tax-free dollars, coverage which the individual would have to pay much more to purchase, and would then have to pay for with after-tax dollars. This is a good argument, but it must be tempered with reason, and with economic consideration of the total number of dollars available. We believe we have maintained some reasonable balance in these costs - but some of our industries have allowed this kind of reasoning to push their "fringe benefits" costs so high they are no longer able to remain competative -

steel and automobiles are prime examples! As mentioned earlier, we find our costs to be a problem sometimes - those industries are now saddled with such high costs that they are pricing themselves out of the market - perhaps forever!

It is my understanding that the concern of your committee is on the effect these excessingly high benefits have on the tax structure that has led to the current hearings. I understand one of the proposed solutions is to establish maximum dollar limits for tax-exemption, and to tax any excessive benefits cost as if they were income. This would result in the amount of taxes deducted from the paycheck being increased, and the net pay being reduced.

It is my belief that such a change would be little noticed, and would not be as effective as some other steps. Unless the tax on benefits was clearly stated it would have little impact on the employee, because it could not be identified. This is especially true because of the large differences in cost of benefits from company to company, and from one area of the country to another. Due to large differences in cost of health care, for example, in California vs North Carolina, any "floor" established which would reach the typical employee in North Carolina would be very harsh on those who work and live in California. Or, any "floor" which was an equitable percentage of total cost in California might not affect North Carolina residents at all.

Due to continually rising costs of medical care we recently had to make some major modifications in our health insurance coverage. The union agreeded to these provisions because the employee pays for dependent

coverage, and therefore had personal expense involved, too. We instituted an increase in deductables (from $100.00 to $200.00) and an 80% coinsurance provision, so that our plan now pays 80% of "usual, reasonable, and customary" charges, rather than the 100% which used to be paid. There is an out-of-pocket maximum for each employee of $1,500.00 per year. Now our employees are concerned with medical care costs! This has already made a substantial reduction in utilization of coverage. As a result, we expect our cost of providing this coverage to become more stable in future years.

Perhaps it would be well if federal tax laws restricted employers from paying over a certain percentage of the cost of certain benefits. Perhaps if the employer could only pay 90% of the employee cost, and 50% of the dependent cost for health care the employee would be concerned with the premium cost - and the utilization. Each rate increase would be prorated between employer and employee. It would then be applied to all regions of the country, eliminating the problem mentioned above.

Perhaps regulations should require some deductable and some coinsurance on group health plans, to continually remind all employees that they have an interest in what the total cost is. Without these previsions, cost of health care can continue to rise, but the employee has no involvement, and therefore could care less, because the employer is absorbing all the increase. Pressure from employees, especially in unionized firms, will continue as it has in past years, will continue to push these amounts up, sheltered from taxes.

I strongly believe it is to the advantage of us all for the general population to be covered under some type health insurance program. After all, accidents and illnesses are likely to occur to all people sooner or later. Some are able to pay for these costs. However it gets handled, those of us "who pay for things" - through cash, or insurance, or taxes, or whatever - also wind up paying for those who do not pay their own way. If hospitals can not collect for services rendered, they must raise their rates to those who do pay. This applies whether their inability to pay comes from lack of money, lack of insurance, inadequate insurance, or Medicare/Medicade "cost shifting" by setting unreasonable low rates.

I believe that if the federal government removes the tax credit, so the employer has no incentive to provide health care benefits, many employers will, over time, eliminate or greatly reduce the coverage. Many employees will not be prudent enough to provide coverage on an individual basis, especially since individual coverage is much more expensive than group coverage. If that happens, those "who pay the bills" will wind up having to assume an even greater share of the costs.

I have spoken primarily of health care. This is, with the exception of Social Security, the most universal "fringe benefit," and by far the most expensive. In recent years we have seen several additional benefits added. Some of these, such as day care, are of interest and value to only a small percentage of working society. Pressure has been applied (much of it by government) for employers to provide these benefits. If providing a day care center allows mothers to come off unemployment or welfare rolls and become gainfully employed, they certainly serve a worthwhile purpose. I'm not totally sure the employer is the one who should have to provide

the service, but if he is willing, I can't argue with the tax deductable status of the expense. I strongly suspect it is less expensive to the taxpayers for the employer to do this than for the Department of Social Services, or some other government agency, to do it.

Another question relates to Social Security, Pensions, and related items concerned with retirement. In the early days of Social Security, it was discussed as "one leg of a three-legged stool," with pensions and personnal savings providing the other two legs. Our pension plan is rather modest. Nobody is going to get rich from it. However, when you consider the fact that we also provide half the Social Security funds for each employee, we do make a major contribution toward his retirement. In dealing with hourly employees, as they near retirement, it appears we have done much more toward providing our share of the two legs of that stool than most of them have done toward providing the third leg - personal savings.

This observation reinforces my beliefs about employer-provided life and health insurance - if we did not provide these coverages, many employees would not have them, or would have much less adequate coverage.

I believe one final observation is in order, concerning disability benefits. As our population lives long and longer, and medical care becomes more and more effective, more and more of our populations lives on - although sometimes disabled. Furthermore, it appears our disabled live longer and longer. Medical science can frequently preserve life, but not cure the disability, or restore the person to an active life. For our hourly employees we provide twenty-six weeks of disability coverage. It's not enough to live on, but it will help with the bills. The twenty-six weeks was designed to dovetail with Social Security disability benefits,

which should become available at that time in case of long-term disability. Some employees have individual insurance policies to provide cash in case of disability. Some have coverage on their individual financial obligations (car loans, mortgages, etc.). Most have nothing, in my experience.

In case of disability, these people find themselves at the mercy of the government. There must be a hundred various government agencies which do something for somebody, but nothing for most people. If the employee has been in military service he MAY be able to get a little money from that. If he has nothing, he can apply for welfare benefits - from several different agencies. If he has worked hard, and saved his money, and owns a home, or other property, he may have to sell everything, and use up the proceeds, before he becomes eligible.

He may find that he has to spend many hours, running down various possible sources. A current employee, on Medical Leave with terminal cancer, is going through this now. Every few days I get a form from another government agency, wanting to know how much disability, and how much pension, and anything else, he is getting, so they can decide if they can help or not.

It disburbes me, as a taxpayer, that an unmarried woman with young children can move into town, and seek assistance, and the government agencies fall all over each other providing funds - welfare, aid for dependent children, food stamps, rent subsidies or low income housing, and Medicade, just to name a few. If she's not satisfied with her level of income she needs only have another baby, and all the allowances are increased. But let a sixty-year old male, who has worked all his life, and paid taxes, and done his share to support this country get sick with

a long-term or terminal illness. If he asks for help everybody treats him like he's a crook. When these two extremes persist, somthing is wrong with our system!

Surely, something could be done to put all these various agencies into one package. Let someone handle the entire thing. Get one set of figures, and calculate one benefit, and deal with the problem. We could save enough on staff salaries for all these agencies to pay for the benefits provided. Of course, lots of government employees would then become surplus, and herpahs have to find other jobs - or even go to work. In spite of this, our general population - the taxpayers - would be better off. A man with terminal cancer - or his family - should not have to go through this ratrace at a time like this.

The enclosed sheet shows our pay rates and benefits costs, as computed for contract negotiations in January 1982. They cover the year 1981. Several of these costs have increased since then, but the relationships still exist.

As the sheet shows, our total benefits cost a total of $2.17 per hour. Of that amount, $0.99 was included in payroll, and subject to the usual payroll taxes. We even pay Social Security taxes on the value of these benefits, compounding their cost!

Another $0.76 was paid for taxes and insurance premiums which are required by law.

The smallest cost group is those benefits which are negotiable, and which

the company pays for the benefit of employees, but which are not included as taxable items. If tax credit for these expenses was removed, it is likely there would be reductions in these benefits. Incidentally, the benefits provided by the pension are taxable when paid to the retired employees.

I might also point out that these benefits, with slight variations between salaried and hourly plans, apply to ALL employees - hourly, salaried, male, female, black and white.

In summary, I don't think the federal government should tax the cost of reasonable benefits provided by employers. Perhaps some limits on the amount of benefits is reasonable, but only to limit those benefits which are excessive.

I recognize the government's "position" - that all money belongs to the government, and thus any money which the government "allows" the employee to keep "cost the government money." Many of us take the opposite position - we believe that what we earn belongs to us, and that what the government takes from us was really ours. If the government takes a reasonable amount, and uses it wisely, most of us do not protest. We do object to the apparent government view, "take all you can, and throw it away if you please, because it does not cost anybody anything - it's only tax money."

I thank you for this opportunity to present some of my views to your committee.

I recognize that my views may not be what your committee wants to hear, and they may, therefore, be completely rejected.

Even if it makes no difference at all in what you decide to do, I feel much better for having said it!

Thank you,

W. C. Payne, Sr.
Personnel Director

Encl:

PS: The opinions stated in this letter are not necessarily the opinions of the top management of this company. I did not submit this letter to them for their approval - but I think they would agree with at least most of it.

PINE HALL BRICK AND PIPE CO., INC.
WINSTON-SALEM, NORTH CAROLINA
MADISON, NORTH CAROLINA

January 7, 1982

BASE PAY RATE AVERAGE, ALL HOURLY EMPLOYEES, PLANT AND W/S YARD . . . . . $ 4.28

ACTUAL HOURLY AVERAGE RATE, INCLUDING OVERTIME, INCENTIVE PAY, VACATION PAY, BEREAVEMENT PAY, JURY DUTY PAY, HOLIDAY PAY, AND BREAK AND REST PERIOD PAY, YEAR 1981 . . . . . $ 6.54

PERCENT GAIN, ACTUAL HOURLY AVERAGE RATE OVER BASE RATE 52.80%

BENEFITS COSTS PAID BY COMPANY FOR HOURLY EMPLOYEES - PER HOUR, PER EMPLOYEE:

Breaks, Rest Periods, Lunch Periods	$ 0.5444	
Vacations	.2621	
Holidays	.1814	
Bereavement Pay	.0023	
Jury Duty Pay	.0007	
These items are included in pay to employees.		0.9909
Medical Insurance	.1981	
Pension	.1669	
Weekly Accident and Sickness Income Insurance	.0362	
Life Insurance, Accidental Death & Dismemberment Insurance	.0243	
These items are paid by the company directly to insurance company and pension trustee for the benefit of the employees.		0.4255
FICA ("Social Security")	.4329	
Unemployment Insurance	.1081	
Worker's Compensation Insurance	.2152	
These items are paid directly to the government or insurance company for the benefit of the employees as required by law.		0.7562
TOTAL OF THESE LISTED BENEFITS		$ 2.1726

PERCENT BENEFITS TO ACTUAL HOURLY AVERAGE RATE 33.22%

PERCENT BENEFITS TO AVERAGE BASE RATE 50.76%

ACTUAL LABOR COST PER MANHOUR . . . . . $ 7.72

IN ADDITION TO THE ABOVE COMPUTED BENEFITS THE COMPANY ALSO PAYS FOR THE FOLLOWING:

Cost of maintaining canteens (heat, air conditioning, power for machines, housekeeping, etc.);
Safety Equipment (hard hats, safety glasses, etc.);
Cost of handling rental uniform service (payroll deductions, handling);
Cost of handling paperwork in insurance claims;
Cost of paperwork in handling union dues checkoff;
Thanksgiving gifts;
Cost of employees parking on company property (insurance, paving, fence, etc.);
Cost of employees participating on Safety Committee, taking part in safety inspections, attending safety meetings, etc.;
Physical examinations for truck drivers;
Cost of Union Committee members attending meetings with company when requested;
Cost of administering Pension program, including payment to outside advisors for writing of plan, plan revisions, computing benefit statements to employees.

Plan Administration, Inc.

6337 Morrison Boulevard
Charlotte, N.C. 28211

Telephone: (704) 365-2077

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

John D. Richards
President

JDR/jls

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: John D. Richards

Having worked for the past 10 years with small companies that maintain pension and/or profit sharing programs for their employees, I would offer the following comments regarding the private employee benefit plan system:

1) For most of the retirees I have worked with during the past 10 years, the monies accumulated in their company's pension or profit sharing plan represents the nucleus of their retirement assets. They are vitally concerned with the use of these funds to supplement what little assets they have otherwise such as social security, personal savings, etc.

2) The benefits derived are as much if not more meaningful for the rank in file employee as compared to the highest paid employees as it usually represents a greater percentage of their total assets.

3) In my opinion, if the tax incentives for maintaining pension and profit sharing plans were eliminated most small companies would terminate their plans and continue to provide benefits on a non-qualified basis for key employees only.

4) If the ultimate retirement accumulations were left up to the individual (IRAs), it would have a devastating effect on lower paid employees. Companies that provide payroll deduction IRAs often have extremely low participation (less than 10%).

SUBMITTED AS PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS, HELD ON JULY 26, 27 AND 30 BY THE UNITED STATES SENATE FINANCE COMMITTEE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

BY TREVOR G. SMITH
VICE CHAIRMAN, PLAN SERVICES, INC.

It has come to our attention that some members of Congress may feel that employee benefit plans no longer need tax incentives provided, feeling that such incentives and such programs do not appropriately serve the public for whom they are designed, and that such benefits would continue even without tax favorable treatment.

The business of Plan Services deals specifically with supplying informational expertise and administrative support to insurance companies for employers generally classified as "small employers" with respect to the welfare plans provided through insured group insurance programs.

We service more than 50,000 such employers in the United States who employ better than a quarter of million employees. While we have not solicited their approval for us to represent them before you, we do feel that our thorough knowledge of their needs from lengthy experience in dealing with them should be part of your deliberations.

As noted above, most of our employers are "small" - each averages less than 10 employees. This is a very significant part of our American economic system, and currently provides the greatest opportunity for new jobs in our economy, according to most economic analysts who review these matters.

These employers must provide an adequate work place, rewarding employment, and adequate compensation to attract and retain quality personnel. Included in the concerns of every one of these employers is the need for welfare benefit programs for their employees. While these are needed in order to compete for that employee's skills, there is also the advantage of knowing that an employee can dedicate his complete efforts to the task in hand without overt concern for excessive costs of health care services that have to be provided to him or her or respective family members.

The American public expects to be able to obtain insurance coverage to allow them to level out the costs of health care. Nothing that the government has provided to date allows these

costs to be at all budgetable by individuals, witness the average daily cost of hospital confinement for unpredictable illnesses or accidents. Therefore, some leveling of these costs through the purchase of insurance seems absolutely mandatory to wage earners. For them to finance these with after-tax dollars would cause a significant rise in that cost, and would cause many people to make an inappropriate choice against the purchase of those insurance benefits, resulting in an unbudgetable and unmanageable cost when health care expenses inevitably occurred. This would have a deleterious effect, both to the employee and any affected family member, and also to the employer and his function in our economy in the production of goods and services.

No useful purpose would be provided by increasing the cost of an already difficult to manage health care delivery system by deleting tax incentives currently allowed employers. Welfare benefits by their design do not favor the highly compensated, but strongly favor those whose economic needs are the greatest, the average employed wage earner. Adequate insurance benefits would not be made available to that person at a cost he could manage, and the results would simply be a call for additional funding at the hands of governmental resources for those who had not cared for themselves.

Our modest efforts to provide group insurance coverage to these small firms, as one of many similar organizations in the United

States, bears strong testimony to the grassroots interest of the population to purchase insurance benefits, and we feel that the tax incentives are an integral part in making this possible.

If it is felt in any way that the elimination of tax deductibility of premium costs will help in the management of health care costs, please let us further note that this is entirely inappropriate and incorrect.

Our purpose in preparing this statement is not to provide you with burdensome details, but to give you a summary of our experience in dealing with a very large number of employers throughout the entire United States who have found it appropriate to provide insured benefits for their employees. These businesses represent an important part of our economy, and they feel it appropriate to help their employees meet an absolutely required need in their economic lives; they can best do so with the present tax-favored cost distribution against the employers' income. We would be happy to supply additional detail to you to any extent it would help you in recognizing the importance of this mechanism.

Planters National Bank

Post Office Box 1220
Rocky Mount, North Carolina 27801

Telephone 919 977-8211

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee of Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

James B. Powers
Chairman of the Board
Chief Executive Officer

Attachments:

Submitted as Part of the Record of the
Hearing on Employee Fringe Benefits
held on July 26, 27 and 30 by the
United States Senate Finance Committee,
Subcommittee on Taxation and Debt
Management.

By: Planters National Bank and Trust Company

Over the years, private enterprise has continued to develop and improve employee benefit programs which are designed to provide for both the present and future well-being of the individual employee, and his or her family, in terms of financial, physical, and psychological needs for security. These programs are far more efficient and effective than any government program, and should not be destroyed in the name of increased tax revenues.

For example: Planters National Bank and Trust Company provides for the present security needs of its' employees with such plans as Medical Insurance (including coverage of expenses related to catastrophic illness), Life Insurance, and Disability Insurance. Future needs are covered by a defined Benefit Pension Plan which, when supplemented by Social Security Retirement Benefits, allows retired individuals to maintain an acceptable standard of living in the "Autumn" of their lives. Additional present and future benefits are provided by means of an Employee Stock Ownership Plan, the value of which is enhanced by increased productivity and efficiency.

These benefits are provided to all employees on a non-discriminatory basis, and are reviewed each year in an effort to assure adequate and proper levels of benefits. To illustrate: we have increased the pensions being paid to retirees twice in the last four years as a result of the steady increase in the cost of living.

The Pension and Welfare Benefits being provided by Planters Bank are absolutely essential to the economic security of our employees, retirees and their dependents. If tax incentives were to be removed, employers could no longer afford to fund such plans and as a result would have to terminate them, leaving the individual unprotected. In such event, it would become the government's responsibility to provide benefits.

Planters National Bank and Trust Company does not believe that the burden for the cost and administration of such benefit programs should be borne by the government, since such a burden would ultimately be passed on to the already overly-encumbered taxpayers. We, therefore, respectfully submit that private enterprise should be encouraged to provide employee benefit plans and that such encouragement should take the form of continued tax incentives. In so doing, the welfare and dignity of the American Worker will be assured.

The Prudential Insurance Company of America
Atlanta Group Office
Suite 310, Tulane Building
Koger Executive Center
2888 Woodcock Boulevard
Atlanta, GA 30341
Tel. 404-458-8144

Paul D. Kersting, CLU
Regional Group Manager

"SUBMITTED AS PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27 AND 30 BY THE UNITED STATES FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT."

BY: Paul D. Kersting

I am writing because of my personal concern that more than a few members of Congress share the misguided impression that the Private Employee Benefit Plan System is a tax sham only for the benefit of highly-paid employees.

In view of the disasterous state of the Social Security System, I find it incomprehensible that a group of Congressmen should suggest that the Private Employee Benefit Plan System serves no useful social or economic purpose, and further, that it might be eliminated in favor of a Social Security System plus a supplement from individual IRA's. I sincerely hope that those voicing this opinion are few and can be informed of the facts before they negatively impact our future.

Certainly, there are abuses in the system which need to be addressed. I encourage steps be taken to restrain such abuses. However, far outweighing any negatives in the existing system, is the tremendous support provided by the private system in securing financial stability for all of us in the future. There are few of us in the financial service industry who believe that Social Security will be a source of income for us in future years.

I am proud to have served a majority of employers whose purpose has been to provide a meaningful and secure financial benefit for all their employees, not just for top management. These employers represent the norm! Those who abuse the system are the few, and they should be restrained. I suggest Congress review all of the facts pertinent to this subject, not just those which are related to abuses in the system. and make an enlightened decision to protect the tax exempt status of the Private Employee Benefit Plan System.

39-707 O - 85 - 79

Plumbers Local 75

9601 W. Silver Spring Drive
Milwaukee, WI 53225
462-7810

Business Manager
Richard Lansing

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Employee Benefit Hearings

Dear Mr. DeArment:

I am a union member who has had the good fortune, along with the other members of my Local to have negotiated fringe benefits. These include a health and welfare plan and a pension plan.

I became a member of my Union in 1951. At that time, no fringe benefit programs existed. In 1955, we started a health plan which provided limited coverage for me and my family. However, it certainly was better than nothing, and has improved, where today it is a comprehensive plan 85/15, which includes eye and dental, with a $200.00 family deductible, at a cost of $1.40 per hour to a maximum of 40 hours per week.

In 1959, we started a pension plan at .10¢ per hour, and at a benefit rate of $2.50 per 1000 hours worked. Like our health and welfare plan, it also has improved, where today at a cost of $1.35 per hour paid on a maximum of 40 hours per week, the benefit rate is $15.50 per 1000 hours worked. This plan also includes provisions where the disabled are adequately taken care of and the widow of a deceased participant.

Both of these programs have dramatically improved the quality of life, not only for the active member and his family, but also for the retired member and his family.

For example, the member who retires between the age of 55-65, continues in our health plan at a cost of $70.00 per month with full comprehensive benefits. Over age 65, the cost is $40.00 per month and is a supplement to Medicare.

The pension plan which provides the necessary economic safeguard when a person retires, believe me, has been a godsend benefit to our entire membership. I often think how fortunate I am because of the foresight of others. Along with that, we are not dependent on the Federal Government sponsored programs. We, not the Federal Government have taken the needs of our family into our hands and we have done a remarkable job. We have been effective and efficient in building this structure of benefits. I believe it is, and will be superior to any Federal Government developed programs and certainly far less costly.

Now, however, as I understand it, the Federal Government is considering taxing both health and pension benefits. What else is new !!

I strongly suggest and protest that no tax levy be ever considered against benefit programs that provide a very significant social and economic benefit that protects our members at all income levels.

Those benefits surely would change if they would be fully taxed. The only one that would benefit from that is the Federal Government. If anyone believes that the absence of a employer/union provision will benefit anyone, other than provide a greater burden and a lesser benefit to the individual, certainly should go back to school or develop greater empathy for those workers of the United States who are on the same economic level as I and my fellow union members.

However, rather than considering a tax on fringe benefits, how about some tax laws that would encourage fringe benefits, especially a pension benefit. This benefit is the benefit most lacking throughout the United States. It, along with a health plan is the most vital requirement in a working person's life. However, where it is not provided because of employer resistence, and because of the lack of quality employment opportunities for a large share of American workers, it is often overlooked until later in life, and then it is almost too late.

I would hope that whoever is considering change, will only consider change to improve the American worker's quality of life, and not a change that will create a greater burden to an already over-taxed American worker.

Sincerely,

PLUMBERS LOCAL 175

Richard Lansing
Business Manager

POPE & TALBOT, INC.

Gary A. Nees
Secretary-Treasurer

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment:

Senator Packwood held hearings in the Senate Finance Committee on Fringe Benefits. I understand that the hearings are still open for written statements from plan sponsors who are concerned about the future of employee benefits.

I am concerned that the future of our employees may be jeopardized by governmental action in an attempt to generate additional current tax revenues. Pope & Talbot has put together an efficient and comprehensive program of employee benefits to provide for our 2600 employees and their dependents, both today and in the future. Our plans provide medical protection, dependent support and retirement benefits that otherwise would have to be provided by the government. It would be penny wise and pound foolish to enact laws which would bring about the end of these benefits just to raise current tax revenues.

In a large public company such as Pope & Talbot the majority of the benefits provided by our program go to the rank and file employees. Only a small percentage go to the highly paid individuals. Our employees would suffer if these benefits were no longer available.

GAN/rms

P.O. BOX 8171 • 1500 S.W. FIRST AVENUE • PORTLAND, OREGON 97207 • AREA CODE 503 228-9161

STATEMENT

OF THE

PROFESSIONAL INSURANCE AGENTS ASSOCIATION
OF NEW YORK, NEW JERSEY, AND CONNECTICUT

ON

EMPLOYEE BENEFITS

PRESENTED BY

CATHY KINGSBURY, PLAN ADMINISTRATOR

BEFORE THE

SENATE COMMITTEE ON FINANCE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

AUGUST 13, 1984

I AM CATHY KINGSBURY, PLAN ADMINISTRATOR FOR THE PROFESSIONAL INSURANCE AGENTS ASSOCIATION OF NEW YORK, NEW JERSEY, AND CONNECTICUT. THIS WRITTEN STATEMENT IS BEING PRESENTED ON BEHALF OF THE TOTAL MEMBERSHIP OF THIS REGIONAL ASSOCIATION. THE ASSOCIATION REPRESENTS A MEMBERSHIP OF 4300 INDEPENDENT INSURANCE AGENTS WITHIN THE THREE STATE REGION. OF THE TOTAL MEMBERSHIP 43% ARE INSURED BY THE ASSOCIATION SPONSORED GROUP INSURANCE PROGRAM.

WE ARE PLEASED THAT YOUR SUBCOMMITTEE HELD A PUBLIC HEARING ON JULY 26, 27 & 30 TO DISCUSS EMPLOYEE BENEFITS AND THAT YOU ARE ACCEPTING WRITTEN STATEMENTS ON THE SAME SUBJECT. THE STATEMENT AFFORDS US THE OPPORTUNITY TO DOCUMENT THE IMPORTANT ROLE THE EMPLOYEE BENEFITS PLAY IN ECONOMIC SECURITY OF MANY AMERICAN EMPLOYEES, THEIR FAMILIES, AND RETIREES. IN RECENT YEARS, CONGRESS SEEMS TO HAVE LOST SIGHT OF THIS IMPORTANT FACT. LEGISLATION HAS BEEN ENACTED AFFECTING EMPLOYEE BENEFITS AS A TOOL TO INCREASE REVENUE IN THE SHORT RUN, WITHOUT FULLY EXAMINING THE LONG TERM IMPLICATIONS OF SUCH LEGISLATION.

ALL TOO OFTEN SUCH LEGISLATION HAS BEEN FORMULATED IN THE "ELEVENTH HOUR" WITHOUT ADEQUATE COUNSELING WITH PLAN SPONSORS, SERVICE PROVIDERS, AND REGULATORY AGENCIES. A NATIONAL POLICY MUST BE ADOPTED BY ALL ON HOW WE WANT PRIVATE EMPLOYEE BENEFITS TO IMPACT OUR LIVES AND THOSE OF OF THE NEXT GENERATION. A LONG TERM SOLUTION MUST BE FOUND. IT IS OUR HOPE THAT THE WORK OF THE JULY HEARINGS AND THESE STATEMENTS WILL HELP IN COMING TO A LONG TERM SOLUTION, RATHER THAN "SHORT TERM FIXES".

THE FOCUS OF THIS SUBCOMMITTEE IS EMPLOYEE BENFITS. HOWEVER, WE FEEL THAT CONGRESS NEEDS TO LOOK AT ALL AVENUES OF FEDERAL SPENDING AND TAX INCENTIVES BEFORE ACCEPTING THAT THE ONLY WAY TO REDUCE THE DEFICIT COMES WITH CHANGES IN THE EMPLOYEE BENEFIT SYSTEM. ONLY AFTER CAREFUL EVALUATION, IS IT POSSIBLE TO DISCUSS ANY CHANGES IN THE TAX STATUS OF EMPLOYEE BENEFIT ARRANGEMENTS.

PRIVATE ENTERPRISE HAS BUILT AN EFFECTIVE AND EFFICIENT ARRANGEMENT COVERING THE NEEDS OF EMPLOYEES THROUGH THE EMPLOYEE BENEFIT SYSTEM. IT IS FAR SUPERIOR TO ANY GOVERNMENT PROGRAM THAT MIGHT REPLACE IT. IT SHOULD NOT BE SYTEMATICALLY DISMANTLED IN THE NAME OF GREATER TAX REVENUES. THE EMPLOYEE NEEDS ARE REAL AND DEMAND TO BE MET. IF THE PRIVATE SECTOR IS NOT ENCOURAGED TO MEET THOSE NEEDS, GOVERNMENT WILL HAVE NO ALTERNATIVE. THEY WILL HAVE TO MEET THE NEEDS. AND WE BELIEVE THAT THE ULTIMATE PRICE TO OUR NATION WILL BE FAR HIGHER.

ASSUMPTIONS HAVE BEEN MADE THAT ARE NOT FACT. SOME OF THESE ASSUMPTIONS ARE:

* BENEFITS GO PRINCIPALLY TO THE HIGHLY PAID
* BENFITS GO PRINCIPALLY TO MEN
* WORKERS WILL NOT SUFFER IF THE EMPLOYER SPONSORED PROGRAMS DIE
* EMPLOYEE BENEFITS ARE NOT ESSENTIAL TO THE ECONOMIC SECURITY OF WORKERS, THEIR FAMILIES, AND RETIREES

WHAT ARE THE FACTS?

* EMPLOYEE BENFITS ARE ESSENTIAL

AT LEAST 43% OF OUR MEMBERS THINK THAT THEY ARE IMPORTANT ENOUGH TO BELONG TO OUR ASSOCIATION SPONSORED GROUP INSURANCE PROGRAM. THE PLAN COVERS 1500 AGENY UNITS, 7200 INDIVIDUALS AND FAMILIES, 500 RETIREES. LOOK CAREFULLY AT THOSE NUMBERS. THE ASSOCIATION PLAN IS VERY DIFFERENT FROM THE AVERAGE GROUP PROGRAM. THERE ARE 2000 EMPLOYERS USING THIS PLAN TO PROVIDE BENFITS FOR THEIR EMPLOYEES AND FAMILIES. GROUP INSURANCE BENEFITS ARE FAST BECOMING THE LARGEST MONTHLY EXPENDITURE IN THESE SMALL AGENCIES, YET WE HEAR DAILY THAT THEY CANNOT RUN THEIR OPERATION WITHOUT THESE EMPLOYEE BENEFITS. MORE THAN A QUARTER A CENTURY AGO THESE SAME EMPLOYERS LOOKED TO THEIR ASSOCIATION FOR HELP IN PROVIDING THE BENEFITS.

A PLAN WAS DEVELOPED WITH A MAJOR LIFE INSURANCE COMPANY. THAT PLAN IS STILL IN OPERATION TODAY. WHY IS IT STILL OPERATIONAL? BECAUSE OUR MEMBERS NEED AN EMPLOYEE BENFIT PROGRAM AT A FAIR PRICE. IN TODAY'S ECONOMY, ASSOCIATION MEMBERSHIP IS ONE OF THE FIRST AREAS OF EXPENSE CUT. OUR MEMBERSHIP CONTINUES TO GROW EACH YEAR. THE PRIMARY REASON FOR GROWTH IS THE NEED FOR EMPLOYEE GROUP INSURANCE BENEFITS.

* WORKERS WILL SUFFER IF EMPLOYER SPONSORED PROGRAMS DIE

TODAY THE TYPICAL WORKING PERSON CAN LOOK AT THE EVILS THAT MIGHT BEFALL HIM AND KNOW THAT EMPLOYER SPONSORED BENEFITS WILL:

- PAY HEALTH BILLS WHEN HE IS ILL
- PROVIDE INCOME DURING PERIODS OF BOTH SHORT AND LONG TERM DISABILITY
- PROVIDE A SOLID FOUNDATION OF LIFE INSURANCE BENEFITS, AND
- PRODUCE IN RETIREMENT YEARS AN INCOME GENERALLY PROPORTIONAL TO HIS WORK LIFE EARNINGS

LOOK AGAIN AT A OUR SMALL GROUP PLAN. IN THE YEAR JUST ENDING WE PAID IN EXCESS OF $6,253,088.00 FOR 30,000 MEDICAL CLAIMS, $309,318.00 FOR LONG TERM DISABILITY BENEFITS, AND $562,088.00 IN LIFE INSURANCE CLAIMS. WHERE WOULD OUR MEMBERS BE WITHOUT THESE BENEFITS?

* BENEFITS DO NOT GO ONLY TO MEN
* BENEFITS DO NOT GO PRINCIPALLY TO THE HIGHLY PAID

EVEN IN OUR SMALL GROUP WHERE THE AVERAGE UNIT SIZE IS 5 PEOPLE, THESE FACTS ARE EVIDENCED. LESS THAN 20% OF THE BENEFITS GO TO THE HIGHLY PAID. THE MAJORITY OF THE BENFITS ARE DERIVED BY THE EMPLOYEES AND THEIR FAMILY UNITS. BETTER THAN 55% OF OUR BENEFITS ARE PAID TO FEMALES. OUR PLAN IS NO DIFFERENT THAN MOST. WHILE THE NUMBERS MAY VARY, THE FACTS REMAIN.

IN SUMMARY, THE MEMBERS OF THIS ASSOCIATION WOULD LIKE TO VOICE THEIR OPPOSITION TO CHANGES IN THE EMPLOYER BENEFIT SYSTEM WITHOUT CAREFUL EXAMINATION OF THE RAMIFICATIONS. MUCH HAS BEEN ACCOMPLISHED BY THE PRIVATE SECTOR IN PROVIDING THESE MUCH NEEDED BENEFITS. WE ARE VERY SKEPTICAL THAT MAJOR CHANGES CAN BE MADE TO GENERATE NEW REVENUE WITHOUT WEAKENING THE PRESENT EMPLOYER HEALTH BENEFITS STRUCTURE THAT HAS WORKED SO WELL.

THE PRIVATE SECTOR HAS ACCOMPLISHED MUCH IN PROVIDING VALUABLE BENEFITS TO AMERICAN WORKERS AND THEIR FAMILIES. THE JOB, HOWEVER, IS NOT DONE. THERE ARE STILL GAPS IN COVERAGE. THE PRIVATE SECTOR IS ANXIOUS TO CLOSE THESE GAPS, BUT IT NEEDS HELP. TAX INCENTIVES HAVE WORKED IN THE PAST, BUT THEY MUST BE CONTINUED AND, WHERE APPROPRIATE, EXPANDED, TO PROVIDE THE IMPETUS NECESSARY TO COMPLETE THE JOB.

WE APPRECIATE THE OPPORTUNITY TO PRESENT THIS STATEMENT.

PROFESSIONAL INSURANCE AGENTS
GOVERNMENT AFFAIRS OFFICE
500 PENNSYLVANIA AVE., S.E., SUITE 203, WASHINGTON, D.C. 20003
(202) 544-8713

9 August 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

We respectfully request that the enclosed statement on Employee Fringe Benefits by the National Association of Professional Insurance Agents (PIA) be made a part of the hearing record of the Subcommittee on Taxation and Debt Management, Senate Committee on Finance. Hearings were held on this subject on July 26, 27 and 30, 1984.

If you have any questions concerning the above-mentioned statement, please contact our Federal Legislative Assistant, Lydia M. Astorga.

Sincerely,

F. Wayne Bowman

F. Wayne Bowman, FMS
President

J. Knox Hillman, Jr., FMS
Chairman,
Government Affairs Committee

LMA:mc

Encl. (5 ccs)

STATEMENT OF

THE NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS

ON

EMPLOYEE FRINGE BENEFITS

TO THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

COMMITTEE ON FINANCE

UNITED STATES SENATE

JULY 26, 1984

The following statement is submitted by the National Association of Professional Insurance Agents (PIA) for inclusion in the record of the hearings on fringe benefits, held by the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance on July 26, 27 and 30, 1984.

PIA is a trade association representing over 40,000 independent property and casualty insurance agents in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Our members provide and are involved in the sale and service of some employee benefits.

Employee benefits represent virtually any form of compensation that is provided in a form other than direct wages, paid for in whole or in part by the employer, even if provided by a third party. Different benefits serve different social and economic needs. Through employer-provided benefit programs, the bulk of the working population are given protection.

PIA believes fringe benefits are a proven way by which economic prosperity is shared among all employees. They are more cost-effective than reliance on individual initiative as a way of assuring a basic level of security. As small businessowners, our member-agents have the social responsibility of adequately protecting their employees.

PIA is concerned as to how Congress will define fringe benefits for federal taxation purposes. We are opposed to taxation of the "core benefit package" -- basic benefits like life, health, disability and pension.

Before the advent of this core benefit package, unless an agent was able to sit down with an individual and sell him a policy, individuals generally put off the purchase of essential insurance protection -- often with disastrous results for surviving families and additional strain on social, charitable and governmental services. By supplementing individual sales and underwriting, group insurance has opened chanels of insurance to millions of employees regardless of age, sex, physical condition or nature of employment.

The advent of group health coverage for the small business-owner was a great assistance. Insurance agency principals could offer comparable health benefit packages to those offered by larger employers. This improved the competitiveness of the insurance agency in recruiting employees. As insurance agents, we have prided ourselves on being able - in most cases - to offer a better-than-average health benefit program.

Employers are able to attract and retain employees through the provisions of health coverage. Employee morale and productivity are enhanced as a result of increased job satisfaction and this, in turn, strengthens our nation's economy.

Tax laws favoring specific employer retirement and health insurance plans and other statutory employee benefits were enacted under the premise that extensive coverage of employees and their dependents under these plans is desirable social policy. The growth of employee coverage by pensions and health insurance has been strongly encouraged by the tax advantage accorded these plans and by the needs of employees and their dependents and survivors for economic security.

With respect to "plus benefit package," i.e., vision care, dental care, etc., PIA will be willing to look at those, if appropriate, and the degree of favorable tax treatment.

Defining fringe benefits as "corporate perks" would depend on the nature of the organization providing the benefits and the position of the recipient of the benefits. As an association, PIA will assess them on a one-on-one basis to determine how important they are to the particular industry. The use of a company car, for example, is important for insurance agents to make their calls on clients. Thus, this benefit should not be taxable.

The key to the development of employee group insurance and essential to its continuation is the favorable tax climate that permitted its development.

The current system of employee benefit taxation is working well and should be continued. The present structure has fostered a very efficient informal partnership between Government, employers and employees. Private enterprise has built an effective and efficient arrangement covering the needs of employees through employer-sponsored pension and welfare plans. It benefits the majority of employees and their dependents. One major reason for the success of the current system is its flexibility in accommodating the varying needs of different types of employees.

The Department of the Treasury is concerned that the expansion of the fringe benefits has reduced the Federal income and social security tax bases and has caused tax rates to be higher than they would otherwise be. Treasury is also concerned that the tax benefits derived from the existing statutory fringe benefits are not fairly distributed among taxpayers.

PIA recognizes the need for Congress to reduce the federal deficit. However, if broad reconsideration is to be given to the tax treatment of employee benefits, it is essential that before any decision is made, Congress not lose sight of the value of fringe benefits on our nation's social program. While the primary purpose of the Department of the Treasury is to collect revenues for the Federal Government, the Internal Revenue Code is also designed to encourage many socially desirable activities in furtherance of a commitment to certain national objectives. Employer-sponsored benefit plans provide essential financial security for employees. PIA believes we should not take an ax to fringe benefits merely for the sake of generating more tax revenues. Doing this may be a "penny-wise and pound-foolish" decision.

Finally, PIA views the tax law as an important instrument that promotes national economic policy. We, therefore, recommend a fringe benefit law that promotes employee benefits in an effective and cost-efficient manner and, at the same time, achieve national economic objectives.

* * *

LMA:mc

PROFIT Sharing Council Of America
SUITE 722 20 NORTH WACKER DRIVE
CHICAGO, ILLINOIS 60606 (312) 372-3411

STATEMENT OF THE PROFIT SHARING COUNCIL OF AMERICA TO THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT OF THE COMMITTEE ON FINANCE, U.S. SENATE, HEARINGS ON FRINGE BENEFITS, JULY 26, 27 and 30, 1984.

The Profit Sharing Council of America (PSCA) is a non-profit association of approximately 1,300 employers who maintain profit sharing plans. These plans cover approximately 1,750,000 employees. Council members are located throughout the United States and are engaged in practically all areas of economic activity. Member companies range in size from Fortune 500 size companies down to very small businesses.

Some of the material presented in this statement comes from the Profit Sharing Research Foundation (PSRF), Evanston IL, a non-profit publicly supported research and educational foundation.

INTRODUCTION

The nation's retired workers currently receive their retirement income from one of three sources. Active employees count on the same sources: (1) Social Security, (2) personal savings, and (3) private pensions (defined benefit plans, money purchase plans, deferred profit sharing plans, and employee stock ownership plans).

Of these, deferred profit sharing is an important retirement income source that may not be fully appreciated or well understood.

The purpose of this paper is to explain the role of profit sharing in the economy and the social structure of the United States, how profit sharing fits the retirement needs of the individual, how profit sharing contributes to capital formation and how it helps improve productivity, thus helping to control inflation.

Briefly, profit sharing plans are established for the following purposes:

1. To provide both retirement income and benefits in the event of a participant's disability, death or separation from service prior to retirement.
2. To create an incentive for increased productivity and decreased costs -- antidotes to inflation.
3. To accumulate a tax-deferred capital reserve for employees. These savings provide capital formation which advances technology, permits modernization of plant and equipment, combats inflation, and raises the standard of living.
4. To attract and retain quality personnel by sharing the rewards of the free enterprise system throughout the organization.

This paper will show how these goals have been and are being met. PSRF estimates that there are approximately 360,000 companies practicing deferred profit sharing; that some 17 million employees participate and receive a share of the company profits; that capital assets invested in securities amount to an estimated $75 billion.

Profit sharing plans provide participating employees with special sums of money placed in trust, in addition to their pay at prevailing rates. These extra payments are based on the profits of the employer and average 8% to 10% of payroll but can range up to 15%, which is the legal limitation of deductibility. In addition, some plans permit participants to make contributions to build up employees' accounts for the future.

A large majority of plans offer options to participants as to how and when their accumulated profit sharing accounts are received, although typically the participant receives all, or the bulk of his or her share at retirement. The plan can provide that the participant's share will be paid in a lump sum in cash, or part cash and part securities. Many plans allow the retiree to receive account balances in installments spread over several years. Some plans permit account assets to be converted to annuities at retirement. If the participant dies, the account is fully vested and is distributed to designated beneficiaries. Many plans also permit partial withdrawals or loans during employement for such purposes as (1) purchase of a house, (2) payment of heavy medical expenses, (3) costs of college or technical education and (4) financial emergencies.

It would be difficult to overstate the impact of profit sharing plans' investments on the financial vigor of the nation. The investment and re-investment of some $75 billion of profit sharing assets provide broad and sturdy support of financial markets by continuously dealing in stocks and bonds of established companies and in new equity and debt issues to finance growth and the research and development that produces new products, new markets, and new enterprises. In addition, hundreds of millions of dollars in new money is generated each year by new employer contributions, new employee contributions, and the income and gains earned by account assets, and these funds must be invested, producing still more capital formation benefits for our society as they find their way into stock, bonds, mortgages, real estate, certificates of deposit, money market funds and new investment vehicles that come to market.

Members of profit sharing plans become active participants in the free market private enterprise system because each person becomes the beneficial owner of the portion of the fund's total assets that are credited to his or her vested account. Such ownership effectively produces greater and personalized understanding of American capitalism, since the participant must be precisely advised at least annually of the activity in his or her account. Understanding fostered by long-time profit sharing participation takes on an added dimension when the retiring employee considers the critical choices about how to take distribution of the account and what to do with assets received in a lump sum distribution. Whether he or she reinvests cash thus received, or takes down employer stock and receives dividends, or rolls over into an Individual Retirement Account, the individual remains an active participant in the same dynamics that characterized his or her profit sharing participation, becoming the actual owner of investments that have the capacity of delivering continuing income and keeping pace with inflation. The evidence we have seen suggests that such retirees have been and continue to be well-rewarded beneficiaries of this system.

HISTORY OF PROFIT SHARING

Profit sharing has shown tremendous growth in the United States since Albert Gallatin, Secretary of the Treasury under Jefferson and Madison, established the first plan at his glassworks in New Geneva, Pennsylvania, in 1797.

Because the American economy was, by and large, an agricultural small-craft economy up through the Civil War, there was very little need for formal profit sharing programs. Cooperation and an informal method of sharing were inherent in the structure of the family-owned farm and the small-craft partnership.

This personal involvement of the individual in the fortunes of the enterprise began to be lost with the closing of the frontier and the emergence of the corporate form of business organization. The early inventors and developers most often financed their own ideas. But as the country grew and railroads permitted wider marketing to masses of consumers, a larger entity was required.

As late as 1850, the average manufacturer of farm implements might have had only five employees and a capital of $2,600. By 1910, it took $400,000 to be an average manufacturer of farm implements. An army of scientists, engineers and professional managers replaced the struggling little band of producers of earlier days.

In a little over 100 years we have moved from an economy where most people were motivated and rewarded by profits to one where millions of our fellow citizens who are wage earning employees are not directly rewarded and, therefore, not motivated by profits. A vital and traditional element of free enterprise economy was almost lost -- the element of personal involvement in the fortunes of the enterprise.

Profit sharing can, and does, restore to the wage earner the sharing in the success of the business that was long ago jeopardized by the birth

of the corporate form. Profit sharing is an old and solid idea, revitalized, that makes each individual feel, once more, that he is a responsible member of the group. Profit sharing is the recognition of the importance of the individual, whatever his job, to the success of the work in which he is engaged.

After the early beginnings of the concept, Colonel William Cooper Procter set up the Procter & Gamble plan in 1887. The idea began to catch on in the 1900's. From 1910 to 1920, some of the most famous profit sharing plans were established: Eastman Kodak Co., Sears, Roebuck and Co., Harris Trust & Savings Bank and Johnson's Wax. (I might add that each of these companies is a member of PSCA.)

There was relative inactivity during the depression years. A revival was given impetus in 1939 when a U.S. Senate Subcommittee of the Committee on Finance, published findings of its survey and stated:

> "The committee finds that profit sharing, in one form or another, has been and can be eminently successful, when properly established, in creating employer-employee relations that make for peace, equity, efficiency, and contentment. We believe it to be essential to the ultimate maintenance of the capitalistic system. We have found veritable industrial islands of 'peace, equity, efficiency and contentment' and likewise prosperity, dotting an otherwise ... relatively turbulent industrial map, all the way across the continent. This fact is too significant of profit sharing's possibilities to be ignored or depreciated in our

national quest for greater stability and greater democracy in industry."

Partly influenced by these favorable findings, Congress passed legislation providing tax advantages for qualified, nondiscriminatory deferred profit sharing plans. During World War II the government continued to encourage establishment of deferred plans that met IRS standards by exempting them from Federal wage controls.

Profit sharing plans and membership have continued to grow. Today there are currently more than 360,000 deferred profit sharing and stock bonus plans in existence.

TYPES OF PLANS

There are many variations as to how plans work. In deferred plans, used by 80% of PSCA members, employer contributions are put in trust and invested. Some plans permit early withdrawals or loans, but in general, payouts are made upon retirement, termination, disability or death.

In cash plans, used by only 4% of PSCA members, participants are paid at stated times, usually annually.

Combination plans pay part in cash with the rest deferred. In option plans, the participant can elect to receive part in cash and have part deferred. These two types are used by 16% of PSCA members.

Profit sharing contributions by employers may be determined in several ways. In fixed formula plans, the employer agrees to share a stated percent of profits; e.g., 25% of profit before taxes.

In discretionary formula plans, each year the employer's Board of Directors determines the percentage of profits to be shared. This is usually the case with companies with less than 100 employees.

In fixed plus discretionary plans, the employer agrees to share a stated percentage of profits plus an amount to be determined by the Board of Directors based on the year's results; e.g., 10% of profits before taxes or such greater amount as the Directors may determine.

Approximately 60% of Council members' plans accept employee contributions. Some permit voluntary contributions; some require contributions; some do both. Others allow none.

Eligibility requirements involve waiting periods, typically one year or less and, in a few plans, an age requirement. Plans must meet a non-discriminatory classification test or cover a percentage of employees so that most profit sharing plans do not exclude any significant group.

"Vesting" means the acquisition by the plan participant of a non-forfeitable right, according to a schedule, to a percentage of the participant's account.

In full (100%) and immediate vesting, participants are vested after their first year in the plan. In graduated vesting, vesting takes place at established percentage rates each year. In other plans, the participant will not be vested for a period of years, at the end of which he or she will be fully vested. In class-year vesting, each year's company contribution vests separately; i.e., year-one contribution is vested in year three, year-two contribution in year four, and so on.

Profit sharing plans generally vest under a significantly more rapid schedule than pension plans.

Allocation of the employer's contribution is based, in most plans, on the participant's pay since this is a generally accepted measurement of merit, skills, performance, level of responsibility -- the individual's total contribution to corporate profitability. The individual participant's share of the company contribution is in the same ratio as his or her compensation is to the total compensation of all participants. In other plans, allocations may be based on a combination of compensation and service. Some plans base allocations solely on participant contributions. Various combinations of these methods also may be used.

Loans and/or partial withdrawals are generally more liberal if a pension plan is also provided. Withdrawals of a participant's own contribution is the most prevalent arrangement. Withdrawals in excess of employee contributions are taxed as ordinary income.

Except in cases of death, disability or retirement, if a participant terminates membership, he or she forfeits nonvested amounts in the account. Usually the forfeited amount is reallocated to remaining participants. In a few plans, company contributions are reduced by the forfeitures. Forfeitures are placed in a segregated contingent account so that they may be returned to the participant if he or she is rehired prior to a one-year break in service.

Plans frequently offer participants a choice of investment options, such as (1) diversified portfolio of common stocks, (2) a balanced fund of stocks, bonds and possibly real estate, (3) bonds, mortgages and other fixed-income securities, (4) savings accounts and certificates of deposit, (5) a guaranteed-principal-and-interest contract with an insurance company,

(6) stock of employer company. A few companies guarantee that the value of a fund will never be less than the amount of contributions plus a minimum earnings rate based, for example, on the interest rate paid on bank savings. Such plans put a floor under a participant's account.

Profit sharing plan procedures generally are directed by administrative committees. Assets are usually owned and managed by trustees; e.g., corporate trustee such as a bank, individual trustee or a combination.

When a plan owns its own company stock, participants usually give the trustees voting instructions on employer stock credited to their respective accounts.

TRENDS IN PROFIT SHARING CHARACTERISTICS

The following are current trends: (1) deferred plans increasing rapidly, cash plans tapering off; (2) an increase in plans combining deferred and cash distribution elements; (3) slight upward trend in the percentage of profit shared; (4) an increase in plans permitting voluntary contributions; (5) a falling off in annuity distributions due to requirements of Employee's Retirement Income Security Act of 1974 (ERISA) which makes plans with an annuity option more burdensome to administer and explain; (6) an accelerated trend toward shorter waiting periods; (7) swifter and more uniform vesting patterns; (8) a shift toward voluntary contributions so that participant savings in profit sharing plans are increasing; (9) increasing flexibility in the purposes for which loans and/or withdrawals may be made; (10) a trend toward more conservative investments due to heavier fiduciary responsibilities imposed on managers and trustees by ERISA; (11) no discernible trend in investing in own company stock.

PROFIT SHARING IN RELATION TO BROAD SOCIAL PROBLEMS

A pension, or defined benefit plan, provides retirement through definite, predetermined and regular payments. Company contributions are set actuarially. The only specific asset the participant owns is the conditional right to a pension in the future. In contrast, a deferred profit sharing, or defined contribution plan, gives participants an interest in the success of the employer's business. Thus a participant is not assured of definite benefits upon retirement (except in guaranteed plans) but assumes the opportunity for gain or the risk of loss like any investor. However, PSRF's study, Profit Sharing in 38 Large Companies, Vol. II, shows that over half of these companies had both pension and profit sharing plans. But pensions are not nearly as prevalent in medium-sized and small profit sharing companies where profit sharing is the only private retirement plan.

PSRF also made a study of 33 large companies with deferred profit sharing plans and set a "pension standard" in dollars per year at 1.3% of final average pay times years of participation/credited service (with no Social Security offset). Six of these plans generated profit sharing benefits below the pension standard, but also provided a pension plan. In the other 27, the profit sharing programs generated benefits ranging from 102% to 1,011% of the pension standard.

Specific examples of financial benefits to participants are cited by Bert L. Metzger, President of PSRF, as follows:

"At DeLuxe Printers, Inc., a participant with 26 years of service and final average pay of $12,966 had a profit sharing account balance of $99,625, providing him with profit sharing benefits equivalent to an annuity of $12,000 a year versus the $4,383 per year he would have received as a typical pension benefit.

"At Signode Corp., a participant with 35 years of profit sharing participation and final average pay of $14,466, received $127,752 in profit sharing, an annuity equivalent of $15,300 a year versus the $6,582 typical pension benefit.

"This is not to assert that all deferred profit sharing participants end up as well, but it does imply that if the company consistently contributes around the median input of 8% to 10% of pay into a deferred profit sharing trust, and the invested return over the years falls at least in the 6% to 10% range, participants should receive enough in profit sharing income, complemented by Social Security, adequately to fund their retirement program."

It should be noted that the trust assets of the 38 companies in the PSRF's study grew on the average 12% a year, compounded, from 1962 to 1976, a period including the severe market decline from 1972 to 1974.

Profit Sharing in 38 Large Companies, Vol. II showed evidence of superior performance by profit sharing companies versus comparable companies in Fortune's 500 for the four years 1973 to 1976. Average return on sales for 23 industrial profit sharing companies was 6% versus 4.3% for the Fortune 500; return on equity, 13.9% versus 12.7%. For ten profit sharing retailers, return on sales was 2.2% versus 1.25%; and return on equity, 12.1% versus 10.2%.

A study was conducted for the Profit Sharing Council by Professor Bion B. Howard of Northwestern University comparing the financial performance of profit sharing companies and non profit sharing companies in six industries over a 19 year period. The study covered 202 companies, of which 75 were profit sharers and 127 were non-profit sharers. The results showed that

the financial performance of the profit sharing companies was clearly superior to the non profit sharers for the six industries as a group. This study analyzed ten accepted measures of financial performance.

There are many individual examples of increased efficiency and productivity by profit sharing companies. Longs Drug Stores, Inc., had sales of $664 million for the year ended January 31, 1979 versus $122 million ten years earlier. Sales and earnings have increased every quarter since the company's founding over 40 years ago. Joseph M. Long, the company's president, attributes Longs' success largely to the principle of sharing profits.

PROFIT SHARING GROWTH TRENDS

The number of profit sharing plans approved annually by IRS rose from under 2,000 in 1955 to approximately 10,000 in 1968. Thereafter annual approval rose rapidly to around 26,000 in 1974. Then a drop took place, partly due to complexities of ERISA. In 1983, approvals were 25,251 plans covering 744,908 participants.

CONCLUSION

Deferred profit sharing meets the goals implied in the President's Commission's review of retirement, survivor and disability programs, private capital formation and economic growth.

Deferred profit sharing:

- Contributes substantially to retirement income.
- Provides survivor and disability benefits.
- Helps capital formation.
- Encourages and adds to individual savings.

- Improves productivity by increasing efficiency, cutting waste, lowering cost of production.
- Combats inflation.
- Reduces burden on Social Security.
- Provides portability of retirement benefits to younger and short-term workers.
- Offers the most feasible method of providing retirement benefits to small and medium sized companies, the area most in need of retirement programs.

Public policy has fostered deferred profit sharing for nearly sixty years for the above reasons. This long established policy should be continued.

Respectfully submitted,

Walter Holan
President

The Providence Journal Company
75 Fountain Street, Providence, RI 02902 - (401) 277-7000

CHARLES N. MOCK
SENIOR VICE PRESIDENT — PERSONNEL

July 30, 1984

Mr. Roderick DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Bldg.
Washington, DC 20510

RE: Hearing on Fringe Benefits
Subcommittee on Taxation & Debt Management
U. S. Senate Committee on Finance

WRITTEN TESTIMONY

Dear Mr. DeArment:

The Providence Journal spent a total of $10.8 Million on employee benefits in 1983, almost 32% of total payroll. Of that amount, $2.9 Million provided legally required payroll taxes and workers compensation; $3.7 Million was spent in pay for time not worked and other taxable items.

Tax favored employer sponsored benefits cost $4.1 Million in 1983. This amounted to 12% of payroll and approximately 38% of all "benefits."

Coverage at the Providence Journal under the major employee plans is near universal; pension and health insurance benefits are provided to all full time and all regularly scheduled part timers who work 22.5 hours per week.

The per person costs illustrate the significance of the benefits. Approximately $1,581 per year is spect on the group health and life insurance programs. This tax free value represents 15.8% of pay for a $10,000 per year employee, half that for a $20,000 per year employee and only 3% of pay for a $50,000 per year employee.

Efforts to restrict this availability or to tax this value would most severely impact the lower to middle income recipient. These benefits particularly favor the lower paid in terms of the relative compensation.

The impact of reducing or eliminating the tax incentive would naturally lead lower and middle income persons to look to the federal government for national health insurance and other social programs.

We cover about 2,000 employees in Rhode Island with health and retirement security plans; and in divisions across the country, we provide similar protection to another 3,000 employees. This eases the pressure on Social Security, Medicare and Federal health insurance initiatives. Congress should be commended for preferring this private, efficient system through the tax code; and should be looking for ways to simplify the regulatory paperwork burden associated with these plans. To do otherwise would be to jeopardize the health needs and retirement security of literally millions of workers.

Very truly yours,

Charles N. Mock

CNM:lf

STATEMENT OF PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY TO THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

This statement has been prepared in regard to hearings announced by Senator Bob Packwood to begin on July 26, 1984 for the purpose of developing a full, fair hearing record on current fringe benefits and tax policy. This statement was prepared and mailed by the required date, August 13, 1984.

We are pleased that Provident has this opportunity to present a statement regarding the value of a consistent and sound tax policy for employee benefits. Chartered in 1887, Provident Life and Accident has long offered group products including life, health, disability, dental, and pensions. Plans are offered through the parent company or one of its subsidiaries in the fifty states, District of Columbia, Puerto Rico, and Canada.

The interest of Provident in offering effective employee benefit programs begins with its own employees who are provided life, health, and pension benefits fully paid by the company, and dental coverage partially paid by the company. In addition, sick leave and long term disability benefits are provided in tandem so that Provident employees never experience a gap in earnings during periods of extended illness or disability.

Provident employees are also given the opportunity to purchase additional life insurance, automobile, and homeowners coverages through payroll deduction facilities.

Provident provides a non-contributory pension plan for eligible Provident employees whose assets now exceed $45 million. Also, a 401k savings plan has just been implemented. Certain employee contributions are matched by Provident according to a schedule based upon corporate earnings.

The employee benefits provided by Provident for its own employees are approximately 36 percent of total salaries, and Provident provides these benefits in line with all non-discriminatory requirements.

By serving employer's needs for group products in all 50 states and the District of Columbia, Provident has become a major private enterprise source for protecting the health and security of employees throughout the nation. Using traditional group life and health yardsticks, Provident has consistently ranked among the top 20 companies in the nation.

More than 2,700 companies rely on Provident employee benefit coverages to provide protection for approximately 2 million employees. It is not surprising that the management of Provident Life and Accident has long recognized the need for employee protection and provided the products enabling employers to offer group life protection. Over a period of 75 years, the significant industry growth of group life is an example of what can be accomplished by private enterprise toward providing economic security for the wage earner and his family. Employers should be provided every possible encouragement to provide employer sponsored group life protection. Insurance companies often report the grateful comments of beneficiaries whose only source of money was a group life insurance benefit to help through their financial difficulties.

Employer sponsored group life insurance results in coverage for individuals who in general are not inclined to purchase life insurance on their own initiative such as employees which are younger, lower in income, or women. Group life insurance performs a valuable service by providing life insurance to all employees regardless of age, sex, or physical condition.

Many employers through their group life policies are also providing coverage for retired employees. Surveys have shown th[illegible]ore then 80 percent of the large employers and two-thirds of all employers provid[illegible] some form of group life protection into retirement.

The role of Provident Life and Accident as a leading health insurance carrier has been well documented. During 1983, Provident Companies' plans incurred medical claims amounting to more than $1.2 billion. Many of the medical payments under these plans were made to young families who simply could not afford medical coverage except under a group plan. It is important that tax policy governing all employee health benefits be based on encouraging private enterprise to continue its development of these employee benefits. In addition, Provident group disability plans (short and long term) protected more than 250,000 employees as a result of farsighted decisions by more than 400 employers.

For many years Congress has encouraged private enterprise to offer benefit programs which provide security for the worker and his family. It is essential that Congress resist the temptation to gain tax revenues at the expense of these programs. For employers to commit their companies to the long term protection and security of their employees, there must be a long term consistent tax policy on employee benefits. The public/private partnership of American business and government can bring a sense of well being and security to the American wage earner. A level of needed and expected protection has been established in the minds of the wage earner. Any discouragement to the employer to provide benefits for his employees will add enormous pressure on government entitlement programs.

Recognizing the increasing burden of health care costs, Provident has established a division to assist employers in developing programs to control health care costs. Working with employers, health care delivery systems, and existing government policy, Provident seeks to assist companies in the wise management of their health care plans.

Group Pensions are marketed and administered by Provident National, a wholly owned subsidiary of Provident Life and Accident. A variety of pension funding vehicles are available for the small employer all the way up to large defined benefit and defined contribution plans. Provident is becoming a major participant in these markets with more than $1 billion in funds under management.

In addition to participation in long recognized major group markets, Provident has joined with employers in providing mass merchandised products which may be purchased by the employee with the convenience of payroll deduction. These arrangements permit the employee to purchase life, disability, automobile, and homeowners insurance coverages.

The role of the employer has become extremely important in the eyes of the employee in guaranteeing a secure future for his family. With the strength of a long term consistent tax policy supporting this three-way partnership of the employer, employee, and insurance carrier, the American worker can take pride in his ability to meet the health and security needs of his family. We must not let legislation designed and passed "at the last minute" become the "norm" for employee benefit tax policy.

We believe the present private enterprise system of employee benefits is superior to a governmental approach which could erode values of the American work ethic and pride in providing for our own needs. The superiority of the private enterprise system is reflected in the lower costs of these benefits as well as the pride of self-reliance.

It is important that the public/private partnership which exists in health and welfare programs be improved. Now is the time to establish a sound long term policy backed by supportive legislation. Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. This system should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet these needs, government must. And we believe the ultimate price to our nation will be greater.

Provident Life and Accident Insurance Company

Company Name (Optional) _____

☒ All Employees #_____
☐ Salaried Only #_____

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	26,136,598	6,229
Legally-Required Employer Payments	6,035,343	1,438
Social Security	4,883,673	1,163
Unemployment Compensation	964,361	230
Workers' Compensation	187,309	45
Other Payments	—	—
Discretionary Taxable Benefits	7,963,348	1,898
Time Not Worked	7,262,040	1,731
Rest Periods	—	—
Other Taxable Benefits	701,308	167
Discretionary Tax-Favored Benefits	12,137,907	2,893
Defined Benefit Pension Plans	5,316,565	1,267
Capital Accumulation Plans	—	—
Disability Plans	337,976	81
Group Health and Life Insurance		
Active Workers } Combined	6,483,366	1,545
Retirees }	—	—
Other Tax-Favored Benefits	—	—

Provident Life and Accident Insurance Company

Company Name (Optional) _____

☒ All Employees #_____
☐ Salaried Only #_____

TABLE 2

EMPLOYEE BENEFITS PERCENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries	Employer Payments as Percent of all Benefits
Total Benefits	35.3	100.0
Legally-Required Employer Payments	8.2	23.1
Social Security	6.6	18.7
Unemployment Compensation	1.3	3.7
Workers' Compensation	0.3	0.7
Other Payments	—	—
Discretionary Taxable Benefits	10.7	30.5
Time Not Worked	9.8	27.8
Rest Periods	—	—
Other Taxable Benefits	0.9	2.7
Discretionary Tax-Favored Benefits	16.4	46.4
Defined Benefit Pension Plans	7.2	20.3
Capital Accumulation Plans	N/A	—
Disability Plans	0.4	1.3
Group Health and Life Insurance	8.8	24.8
Active Workers } Combined	—	—
Retirees }	—	—
Other Tax-Favored Benefits	—	—

Company Name (Optional) Provident Life and Accident Insurance Company

[X] All Employees #_____
[ ] Salaried Only #_____

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 19 83

	Defined Benefit				Employer Capital Accumulation				401(k)			
	Participate		Vested		Participate		Vested		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	40	1.6	Not Available			N/A				N/A		
10,000- 19,999	1,569	63.7										
20,000- 49,999	786	31.6										
50,000- 99,999	136	5.5										
100,000 or more	16	0.6										
Total	2487	100%		100%		100%		100%		100%		100%

TABLE 4

HEALTH BENEFIT AVAILABILITY, 19__

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999	229	5.5	N/A		N/A	
10,000- 19,999	2828	67.4				
20,000- 49,999	986	23.5				
50,000- 99,999	139	3.2				
100,000 or more	16	0.4				
Total	4,196	100%		100%		100%

Company Name (Optional) Provident Life and Accident Insurance Company

☒ All Employees #_____
☐ Salaried Only #_____

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost *	Year
Defined Benefit Plan Retirees in Pay Status	# 357	$ 209,592	19 83
Defined Benefit Plan Retirees Survivors in Pay Status	# 27	$ 7,805	19 83
Defined Benefit Plan Vested Separated	# 65	N/A	19__
Capital Accumulation Plan Retirement Age Distributions	# N/A	$ N/A	19__
Capital Accumulation Plan Termination Distributions	# N/A	$ N/A nor	19__
Retiree Health	# not available	$ available	19__
Retiree Life	# "	$ "	19__
Retiree Other	# "	$ "	19__

* monthly Benefit

Qualified Plans Services, Inc.

P. O. Drawer 5286, Charlottesville, Virginia 22905
(804) 296-0015

DEVELOPMENT

George W. Eudailey, Jr.

DESIGN & SERVICE

Lynda B. Jones
Plan Design
Plan Contributions

Kay Quinlivan

Melinda Brown
Plan Records
Government Forms

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

George W. Eudailey, Jr.

GWE/nb

Enclosures

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: George W. Eudailey, Jr.

I understand hearings were held in July on the private employee benefit plan system. I have a company, Qualified Plans Services, Inc., which does the recordkeeping and filing of forms for about 200 small retirement plans. (Average number of participants is 5.4). We also help with the design of plans. Therefore, I can speak from experience about how small plans operate, their purpose, appreciation by participants and why employers establish these plans.

Without the tax incentives, we could not even get time to talk to employers about setting up a Retirement plan. The type of small employer we work with wants to do something for their employees but without the tax deduction, they would not consider a retirement plan. A salary increase would not help their employees save for retirement as very very few of the non owner employees in our plans put money into an IRA.

Most of these employees believe they can retire on Social Security. They are not concerned about inflation or about what may happen 30 or 35 years from now. With these small qualified plans, the employer creates money for retirement in spite of what the employee wants. As the employer wishes to have money for his own retirement but cannot accumulate money for his retirement without also accumulating money for the employees retirement, he is forced to accumulate for the employee also.

The system has evolved into something which works and would seem to be desirable from a social standpoint. But, I am tired of reading the misinformation put forth by people who have never been in business nor ever worked with the system.

Continue to give the businessmen incentives to help his employees with their retirement needs and he will do so. This does not mean the employer will appreciate the help right away. Most employees do not start appreciating their retirement plans until they reach their 50's.

Of course these retirements plans benefit the owners (the higher paid). If the plan did not benefit the owner, he would not establish the plan. Most of these people (businessmen) are putting the maximum into an IRA and could also arrange other tax shelters for himself if retirement plans become too complicated.

If the private pension system is taxed out of existence, this county will end up with most of the labor force depending only on Social Security, welfare or being forced to continue to work.

WRITTEN STATEMENT FOR RECORD OF FRINGE BENEFIT HEARINGS JULY 26-30, 1984

Submitted to:

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION
& DEBT MANAGEMENT

Submitted by:

THE QUAKER OATS COMPANY
MERCHANDISE MART
CHICAGO, IL 60654
CONTACT: ROBERT C. PENZKOVER
DIRECTOR, EMPLOYEE BENEFITS
(312) 222-7546

WRITTEN STATEMENT FOR RECORD OF

FRINGE BENEFIT HEARINGS JULY 26-30, 1984

Over the years the Congress of the United States has shown economic and social wisdom in legislation designed to encourage employers to provide workers with employee benefits. Death, old-age, sickness, poverty, disability are the principal contingencies for which benefits exist. Without employer sponsorship, government programs would have to fill the void. Congress should be extremely proud of its past insight and accomplishments in encouraging the private sector to develop these programs.

More recent Congressional attitudes and activity indicate an intent to undo these carefully planned achievements. The motivation undoubtedly stems from concern over the federal deficit, but that does not account for the singling out of private health and welfare programs as abusive contributors any more than, for example, equally desirable and necessary programs such as Social Security and Medicare.

The explanation probably lies in misleading and unfounded information being fed to Congress by government officials who appear to have certain assigned missions which they intend to pursue regardless of harmful consequences or evidence to the contrary.

The employees of The Quaker Oats Company (as well as millions of other people) have recently been victimized by such counterproductive, harmful actions. On their behalf, we seriously hope the Congress will use the valuable information being gathered by your Subcommittee to repair the damage inflicted by the Deficit-Reduction Act of 1984 and prevent further harmful legislation. To that end, we can offer some concrete examples of the beneficial design and operation of employee benefits at The Quaker Oats Company and thereby refute misrepresentations influencing our legislators.

New Medical Tax Counter Effective

Our opening subject must address the provision of DEFRA which destroyed the incentive value of Quaker's pioneering health care program which has proven to reduce health care utilization and cost while increasing tax revenues. By not allowing a year-end cash-out of unused, employer-funded expense accounts, this plan will not work. The result will be exactly the opposite of the avowed intent of that DEFRA provision.

The impressive results are listed below and a more detailed accounting is in an accompanying exhibit.

QUAKER HEALTH INCENTIVE PLAN
1983 HEALTH COST REDUCTIONS/REVENUE INCREASES
($ MILLIONS)

	Employer Tax Deduction	Received Tax Free By Employees But Paid to Providers	Received Taxable To Employees
Maintaining Old Plan	$9.8	$9.6	None
New Plan Results	8.6	7.5	.4*

*Plus $.7 dividend part of which will be taxable cash next year.

This plan reduced the corporate tax deduction by $1.2 million (12%); reduced the amount received tax free by employees by $2.1 million (22%) and created more than $.4 million in new taxable employee income. The U.S. Treasury gained revenue; health care utilization and cost esclation decreased and employees received a more valuable benefit.

The facts directly contradict the uninformed, publicity-stated opinions of Messrs. Chapoton (Treasury), Rubin and Steinwald (DHHS) that such plans cause revenue loss and increase health care utilization.

Interestingly, IRS and Treasury representatives have privately conceded that the Quaker type of plan was not intended to be a target of their recent attack. And various DHHS departments have been impressed with the Quaker approach to the point of

requesting inclusion in research projects to demonstrate the effectiveness. Despite our providing this evidence to the Senate Finance Committee, the House Ways & Means Committee, the House Republican Research Committee, and individual legislators and their staffs, Congress passed a new tax on this benefit beginning next year. Considering these results, it is with some skepticism as to utility that we proceed with further comments.

Benefits Are Based On Need

Responsible employers design benefit programs first and foremost on the basis of needs of a broad cross section of the workforce. The levels and types of benefits are based on competitive considerations and affordability.

These objectives have given rise to more flexible benefit programs. Because of changing demographics, traditional benefits no longer have the same value to large segments of employee populations. Furthermore, some benefits are becoming prohibitively expensive. Flexible programs typically cap employers' expenditures and allow employees to choose the benefits most valuable to them within the budget limitations.

These benefit principles do not suggest any motivation in principle nor in practice to transfer large pieces of otherwise taxable income to non-taxable benefits.

When Congress invites employers to adopt benefits through favorable tax treatment, naturally employers will respond, but only if the above principles are met. Quaker Oats' employee stock programs are a good case in point.

In 1976, Quaker gave employees with five years of service five shares of stock to give them a stake in the success of the Company. Employees had to pay taxes on the value. A payroll deduction stock purchase plan was also put into effect because many employees wanted to purchase more shares (with after-tax dollars). Later on, Congress authorized TRASOPs, then PAYSOPs, which Quaker implemented. We were encouraged to do so by legislation and we believed in the principle of employees having a stake in the Company to stimulate productivity and cost consciousness. Once again, we think Congress should be commended for their insight.

Tax-Free Myth

A generalized myth seems to be that benefits are all tax-free. Pensions and profit-sharing/savings plan funds are taxed when received by individuals. Life insurance coverage above $50,000 is taxed currently and proceeds are includible in estates when paid. To the extent that these are tax "breaks", they primarily enure to the benefit of the lower paid.

Short-term disability income, workers' compensation supplements and supplemental unemployment benefits are fully taxable wage replacement plans. Long-term disability income is taxable except for a nominal exclusion. Vacations, holidays and other time off with pay programs are fully taxable.

That leaves primarily medical, dental and educational benefits in the non-taxable realm and now Quaker employees will be taxed on the first $325 of medical benefits and most educational benefits as a result of DEFRA.

Almost all benefits are immediately or eventually taxed.

Percentage Growth Myth

Misleading quotes from benefits surveys indicating an increase in benefit costs as a percentage of payroll probably cause further unnecessary alarm. Most of the percentage growth has been in the area of taxable benefits, time off with pay being a leader. Also included in these figures are legally required payments for Social Security, Medicare, Unemployment and Workers' Compensation, etc. Admittedly, medical costs have been skyrocketing, but solutions, notwithstanding IRS and DEFRA, were at hand. Also the cost of other benefits (life insurance, pensions) has been decreasing.

For the last ten years, Quaker's cost for pension, life insurance, medical, dental and long-term disability has remained constantly at about 12% of payroll.

Higher-Paid Discrimination Myth

The regulatory and tax controls existing today result in considerable discrimination against the higher paid in order to ensure non-discrimination against the lower paid. Pensions are a prime example. Consider two workers with 30 years of service, one earning $20,000 and one earning $100,000. The lower paid receives from his pension and social security about 70% of his after-tax pre-retirement income. The higher paid receives about 33%. This occurs without the impact of Section 415 dollar limits on pensions which cause the wage replacement ratio to sink further for those with higher incomes.

These types of controls may have gone too far beyond the original intent of ERISA (another good achievement of Congress). By dropping the defined benefit pension and freezing it at $90,000 and not allowing projected increases for funding purposes, plans may become underfunded requiring higher annual contributions. In one of Quaker's pension plans covering salaried and hourly employees, over one-third of employees will hit the $90,000 limit before retirement. For most of them, retirement is 20 to 30 years in the future. (DEFRA's restrictions on funding employee benefit trusts will similarly have an adverse funding effect.)

Other than some measure of inequity and counter productivity, however, non-discrimination controls have not been a serious problem. For example, Quaker has had a cash-or-deferred profit-sharing arrangement since 1967 (11 years before 401(k) was invented) and has never had a problem with the "1/3 - 2/3" test. For the last year, our experience shows high deferral rates by the lower paid and higher paid.

1984 DEFFERAL EXPERIENCE
QUAKER PROFIT-SHARING AND INVESTMENT PLAN

Pay Category	Annual Company Award (7.5% of Pay)	Voluntary Salary Reduction Option (5% of Pay)	% of Total 12.5% of Pay Deferred
Upper 1/3	86%	86%	86%
Lower 2/3	74%	76%	75%

Two further points are relevant:

1. This deferral is not a sudden phenomenom. It increased gradually over the 17-year history of the plan and has been at a high level for the last several years.

2. Eventually, all these funds plus accrued investment earnings are taxed; i.e., when received as hardship withdrawals during employment or when distributed at death, retirement or termination.

Again this testifies as to the value of tax-deferred programs authorized by Congress. Our employees see the value of saving for retirement, medical and financial emergencies, home purchase and higher education. This plan benefits young, old; married, single; low-paid, high-paid--it is the ideal benefit.

In a Quaker subsididary savings plan, 80% of the workforce are production employees, primarily female. The plan has a 90% participation rate.

At another Quaker subsidiary, a high percentage of higher paid and lower paid choose to take their annual profit-sharing award as a cash bonus with immediately taxable income. Obviously, different socio-economic values exist there.

Criteria For Benefit Tax Incentives

Some advantageous tax treatment should be allowed for benefits which safeguard the health and welfare of our nation's human resources by:

1. helping people obtain or maintain jobs (which produce income, which produce tax revenue and reduce reliance on government aid);

2. providing income replacement when the wage earner can't work due to sickness, injury, death, disability, old age, etc.;

3. guarding against unforeseeable economic hardships beyond the individual's ability to pay.

4. maintaining, correcting or improving one's physical and mental health (the current Section 213 definition is adequate).

These programs should be available to a broad cross-section of employees, but without requiring all employees to accept the same benefit or benefit levels.

Safeguards Against Abuse

For the most part, Congress has previously recognized the above criteria and employers and plan sponsors have faithfully followed the rules. A few have stretched the letter and intent of the law, but the lack of regulatory guidance has generated that result. With good legislative safeguards already in place, the most desirable further safeguard would be for the Treasury and IRS to get caught up on issuance of regulations.

Conclusion

Congress has made some serious legislative mistakes of late, which has blotted an exceptional record of past achievements in

humanitarianism and economic wisdom. Lack of factual understanding in a complex area compounded by frenetic reactions to the budget deficit, seem to cause these legislative errors.

Senator Packwood and members of this subcommittee represent an eleventh hour hope that these hearings will bring factual data to their colleagues. Regardless of party affiliation and regardless of income level, American people are being hurt by ill-conceived benefit tax legislation without any corresponding social or economic value to the country.

Benefits are not a guns or butter issue--they represent bread and butter.

EMPLOYEE BENEFIT UPDATE

HEALTH INCENTIVE PLAN REPORT

March 1984

QUAKERS KEEP PLAN COSTS BELOW TARGET

Dear Quaker,

Congratulations are certainly in order for your achievement of a dividend under our Health Incentive Plan! You will recall that at the beginning of last year we embarked on a health management program to:

- contain the annual rate of medical cost escalation to acceptable, affordable levels; and
- improve the value of the medical plan to a greater number of employees by providing more flexibility and covering more services such as, hearing and preventive care.

Those objectives were certainly met in 1983. Compared to 1982, the total cost of the plan increased only 5.6 percent compared to a forecasted rate of 20 percent under the prior plan. Of even more significance, payments for medical care dropped 6 percent from 1982. That allowed $204 of the $1,535 target amount to be refunded to employees through dividends and unused expense accounts. Clearly, the majority of employees received higher benefit payments than they would have received under the prior plan.

It is extremely gratifying to see a bold and unique program accomplish its mission in the first year. Assuring continued success will be far more challenging however, because adverse economic forces are still at work. Medical price increases exceed the general inflation rate and governments' policies of shifting Medicare and Medicaid costs to the private sector continue at an even greater pace.

In 1984, it will take increased diligence by each of us to learn more about our choices in obtaining cost effective treatment and to pursue more active measures to improve and maintain our health.

RC Penzkover

Robert C. Penzkover
Director
Employee Benefits

QUAKERS EARN HEALTH PLAN DIVIDEND

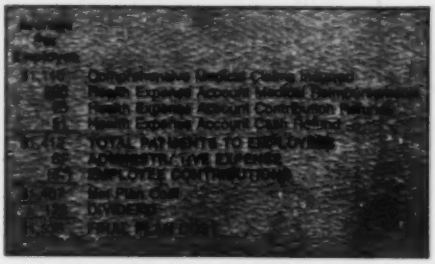
Judicious use of health care by Quaker employees played a major role in achieving a 1983 Health Incentive Plan dividend. Under the Plan, Quaker committed to a minimum aggregate benefit expenditure of $1,535 per employee. Actual expenses averaged $1,407; therefore, these dividends were earned.

$154 - Employee with dependents
$ 88 - Employee without dependents

The dividends were credited to 1984 expense accounts of employees who were enrolled in the Plan as of December 31, 1983. Amounts were pro-rated for less than a full year of participation. (You will receive a statement showing the exact dividend amount credited to your account shortly.) During 1984, Quakers will have an expense account of $325 **plus the dividend** available for use as medical reimbursement or as a cash payment at the end of the year.

For 1984, Quaker's guaranteed expense level has been increased to $1,658 per employee.

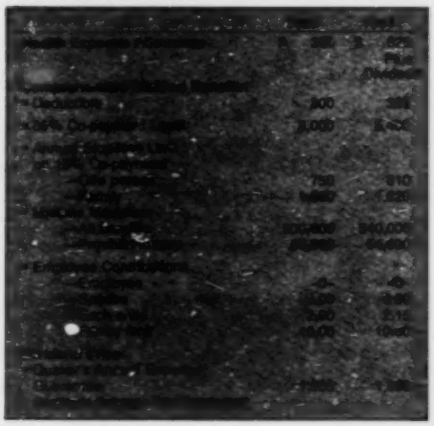
HEALTH INCENTIVE PLAN 1983 FINANCIAL SUMMARY



AVERAGE MEDICAL PLAN COSTS PER EMPLOYEE SUMMARY COMPARISON - 1982 VS. 1983

	1982	1983	
Medical Claims	$1,421	$1,336	
Administrative Expense	71	62	
Employee Contributions	(38)	(67)	
Net Claims Cost	$1,454	$1,331	
		76	Unused 1983 Expense Account Refunds
		128	Dividend Added to 1984 Expense Accounts
		$1,535	TOTAL PLAN COST

1984 PLAN LEVELS



LEGISLATIVE BULLETIN

As this newsletter was being prepared for printing, the Internal Revenue Service had issued a news release stating that payments from flexible reimbursement accounts which are funded by non-taxed employee salary reductions must be considered income even if the payments are for medical expenses. Quaker's Health Expense Account is **not** that type of plan. It is funded entirely by the Company. However, the release contained other language which could be construed as applying to our Expense Account.

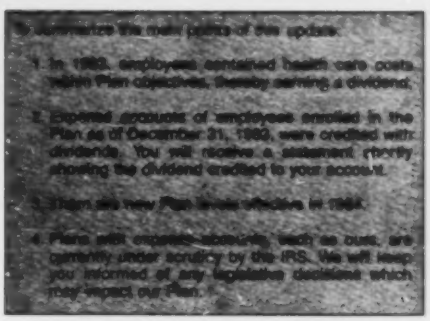
Quaker and many other major employers who adopted these plans in good faith based on the 1978 tax law related to "cafeteria compensation" have voiced disagreement with the timing, the method and the technical merit of the IRS position. We have attempted to demonstrate that there are differing types of plans involved, only a few of which employ practices the IRS considers abusive.

This message has been carried directly to the House Ways and Means and Senate Finance Committees who are considering new tax legislation as well as the IRS and Treasury officials.

In view of the national publicity the issue has received, we felt it important to advise you as to Quaker's position and to alert you to the potential of the new employee benefit taxes and restrictions being considered by Congressional Committees.

The issues are not likely to be resolved in the near future. Meanwhile, Quaker and other employers representing millions of employees are doing everything in their power to bring important facts to the attention of appropriate government agencies.

BRINGING IT ALL TOGETHER



Published by the Employee Benefits Department.

COMMUNITY MENTAL HEALTH CENTER
Rt. 1, Box 340
BOLIVAR, TENNESSEE 38008

Glen Burse, Executive Director
Telephone 901-658-6113

Judge Neal Smith, President
Board of Directors

August 10, 1984

Mr. Roderick A. DeArment
Chief Council-Committee of Finance
Dirkson Center Office Building-Room SD 219
Washington, DC 20510

SUBJECT: Public Hearings July 26, 27, and 30, 1984 concerning taxation of employee benefits

Dear Mr. DeArment:

I wanted to express my concerns for not taxing employee benefits. The benefit program that we provide to our employees is basically providing group health, life and disability insurance. The employer is paying 60% and the employees are paying 40%. Also, we provide the employees with a 5% retirement plan that is a define contribution plan. These benefits are provided to all employees not just to key employees. We feel that the benefits that are provided will adjust with inflation based on the fact that as salaries increase on the employees we will increase contribution dollar volume based on percentage of salary especially retirement benefit.

Group health insurance is an example of my concern in your taxing employee benefits. By making a mechanism taxable, you may encourage many employees not to choose to receive that benefit from their employer by virtue of it now being taxable. Should this be the case, I could conceive a greater burden and strain upon the medicaid system and would very likely offset any tax increase based upon taxing benefits of this nature.

JOHN W. TRAVIS, M.D.
PHILLIP B. SISK, M.D.
RALPH H. BAEHR, M.D.
MILLARD C. SPENCER, M.D.
RICHARD MEIDINGER, M.D.
RALPH D. REYMOND, M.D.
D. MIKEL ELDER, M.D.
STEPHEN J. TEMPLIN, M.D.
VERNON J. PETERSON, M.D.
JOHN D. GAY, M.D.
WILLIAM J. WALLS, M.D.
MARK GREENBERG, M.D.
JACK W. SNARR, M.D.
DENNIS C. PETTERSON, M.D.
WALTON S. LAUNEY, M.D.
PHILIP L. DUNIVEN, M.D.
B. A. FRANKLIN, JR., M.D.
RUSSELL CLAY HARVEY, M.D.
STEVEN J. BUSKIRK, M.D.
GORDON R. RANDALL, M.D.
JAMES W. OWEN, M.D.
RUSSELL EDWARD GREENE, M.D.

RADIOLOGY ... NUCLEAR MEDICINE
A PROFESSIONAL ASSOCIATION

GAYLE L. VERNON, FACMGA, Administrator
WILLIAM J. BUNNELL, Director of Planning

310 MEDICAL ARTS BLDG. (913) 234-3451
TENTH AND HORNE STREETS
TOPEKA, KANSAS 66604

10 CONTINENTAL BLDG. (913) 354-9481
SEVENTH AND HORNE STREETS
TOPEKA, KANSAS 66605

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

The attached statement is offered for the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30, 1984, by the United States Senate Finance Committee's subcommittee on taxation and debt management.

The statement is submitted on behalf of the 55 employees of Radiology and Nuclear Medicine.

Respectfully,

John W. Travis, M.D., FACR, FACP
President

Gayle L. Vernon, CLU, FACMGA
Administrator

STATEMENT FOR THE RECORD
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
US SENATE FINANCE COMMITTEE

EMPLOYEE FRINGE BENEFITS HEARING

30 JULY 1984

Radiology and Nuclear Medicine, a Professional Association, of Topeka, Kansas, is a small business professional service corporation with 55 employees. It has consistently provided a generous fringe benefit package to all employees. The Pension and Profit Sharing Plans cover 53 employees. Of the 53 employees only 16 are stockholders. Contributions to the Profit Sharing and Pension Plans are made for all employees based on their income. In fact, the contributions made for many non-stockholder employees represent a far higher percentage of compensation than do contributions made on behalf of stockholders. The plans are nondiscriminatory with regard to sex, age, and race.

Within the past five years, five employees have retired, only one of whom was a stockholder. Each of the retiring employees would have experienced a substantial decrease in their standard of living were it not for the benefits provided by the R&NM benefit programs. The non-stockholder employees would suffer in a significant way if employer-sponsored deferred compensation and fringe benefit programs were to be discouraged by adverse tax treatment.

In addition to the pension and profit sharing plans, R&NM also provides group health insurance, disability income replacement, and group life insurance to all employees. The life insurance is based upon salaries, permitting higher insurance upon the lives of stockholders who work to produce income for the organization through the provision of medical services. Disability income coverage is provided through a plan which is relatively advantageous to lower salaried employees. Radiology and Nuclear Medicine is representative of the thousands of small business employers who provide benefits for their employees using employer-sponsored programs of deferred compensation and employer-paid insurance plans, etc. It is virtually certain that many employees of our own organization would not be able to provide these benefits for themselves at reasonable cost or with the even handedness which characterizes our present employee benefit structure.

It is frightening to employees and the employers alike when we hear that the Congress intends to change the law in a manner which will discourage employers from providing benefit programs for their employees. This seems to us to be a transparent effort to increase taxable income to the government. This is an especially bleak perspective in a time when there is so much evidence that Congress is not inclined to reduce its own generous prerogatives. We believe changes in the basic tax laws which discourage employers from providing plans which support security, retirement, and health maintenance for employees will lead only to more government programs with their attendant bureaucracy and inefficiency and an increased burden on all citizens. The government has a poor record of sustained, reliable, and cost effective support for citizens; the private sector has done far better. Government-sponsored benefit plans are uniformly underfunded and overpromised.

Private enterprise has built an effective and efficient benefit system to meet the needs of employees. It remains far superior to any government program yet devised. It should not be sacrificed and dismantled in the name of greater tax revenues. Employees benefit needs exist and must be met. If private enterprise is not encouraged to meet this need, government will bear the burden. If this were to come about, the ultimate cost to our nation would be far greater.

The attached reprint of a recent editorial summarizes what our organization believes is the important role of private fringe benefit and deferred compensation plans.

We strongly urge the Senate Finance Committee and the Congress as a whole to favorably consider legislation which would protect and stabilize the entire area of employer-sponsored fringe benefit and deferred compensation programs which derive from, feed back into, and strengthen the private sector of our economy. The presumption that there is good in increasing federal revenues through elimination or restriction of such programs in the private sector is economically unsound and poor public policy.

Radiology and Nuclear Medicine,
a Professional Association

John W. Travis, M.D., FACR, FACP
President

Gayle L. Vernon, CLU, FACMGA
Administrator

Let's not tarnish the golden years

They're called the golden years: the time when America's more than 21 million retired persons are free to savor the rewards they've earned after 30-plus years of work and responsibility.

For most of them, the leisure they enjoy is made possible by what is often called the "three-legged stool" of retirement income—pensions, savings, and Social Security. According to the Social Security Administration, 9 percent of retired persons were covered by private pensions in 1962. By 1982, this coverage had grown to 23 percent. Moreover, 70 percent of all currently employed Americans in private and government jobs are covered by employer-provided pension plans, compared with only about 49 percent in 1962.

This trend may accelerate. Secretary of Labor Raymond J. Donovan recently predicted that private pensions will replace Social Security as "the bedrock or the cornerstone" of retirement income. Pensions will, as he put it, "exceed Social Security in importance in the lives and in the minds of our retirees." And he cited figures which support that notion. Between 1970 and now, private pension funds have grown from $150 billion to $900 billion, and they are expected to reach $3 trillion by the end of the century.

There is a basic economic difference between private pension systems and Social Security. The latter collects its funds from the pay envelopes of current wage earners in order to distribute them immediately to current retirees. Private pensions, on the other hand, are normally funded by employer companies well in advance of the retirement of their beneficiaries. In the meantime, these billions of dollars are invested. They become part of the nation's supply of capital. In short, they help create jobs.

In view of this distinction, the growth of private pensions is welcome news. Of course, Social Security must be preserved as a bulwark against financial distress among retired Americans, particularly those who may not have participated in a private pension plan. At the same time, the growth of private pension plans should be encouraged.

Still, there are some in Congress who would chip away at the scope of private pension plans. They feel that these plans cut into tax revenues at a time when the federal budget needs them most. Money socked away in pension plans, they argue, defers income taxes otherwise due on those amounts. Moreover, when the retiree finally collects his pension and the tax falls due, the tax payment is lower, because retirement usually puts the taxpayer in a lower bracket.

While all this is true, it's also shortsighted. Consider how much tax revenue the government collects from business enterprises financed in part by the investment of hundreds of billions by pension funds; or from the income taxes paid by those whose jobs were created through the investment of pension fund money. Private pensions benefit government and the economy as richly as the retired recipients.

But quite aside from economics, hard-working Americans have earned the right to the golden years when their working days are done. Let's not devalue that gold.

RBX INDUSTRIES, INC.

P. O. BOX 3128

RICHMOND, VIRGINIA 23235

PHONE: 804-320-5095

August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, D.C. 20510

Submitted as part of the record of the Hearings on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee. Subcommittee on Taxation and Debt Management by N. H. Turbeville, Jr. on behalf of the employees of RBX Industries.

Dear Mr. DeArment:

Recently branches of the Federal Government have had discussions centering around the proposition that private sector Qualified Pension and Profit Sharing Retirement Plans should be eliminated or further curtailed from the restrictions imposed by TEFRA-1982. In our view this would be a colossal error that will adversely impact our employees and all others covered by such plans.

In recent years it has been necessary for congress to pass a succession of laws to bail out the Social Security System which, without this help, would have quickly reached insolvency. What has happened to the Social Security System is a perfect example of the inability of Government to look ahead and provide an adequate retirement for our older citizens. The private sector has also had its' problems; however, the record is clear in stating that private retirement plans have been an enormous benefit to a large segment of the American public. In fact, if it were not for private plans, a greater burden would be forced on Government at all levels.

The social issues at stake in this regard should not be overlooked. In the specific plan adopted by our company, benefits are available to all employees regardless of pay scales, race, or sex. Our plan is essential to the future economic security of our employees and their dependents.

We urge you to encourage and support the principal of private pension and profit sharing plans.

Sincerely,

RBX INDUSTRIES, INC.

N. H. Turbeville, Jr.
President

NHT/sdw

Office of the Treasurer

Rensselaer Polytechnic Institute Troy, New York 12181

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

I understand that Senator Packwood held hearings on July 26, 27 and 30, regarding fringe benefits, and that he has asked for written statements from plan sponsors of as many companies as possible who are concerned about the future of employee benefits.

I strongly believe that private enterprise has built an effective and efficient arrangement covering the needs of employees through the employer benefit system. I believe it is far superior to any government program which would replace it and it should not be systematically dismantled in the name of greater tax revenues. I also believe the ultimate cost to our nation will be greater if employer sponsored plans are replaced by government plans.

A mistaken impression concerning employee benefits is that these benefits are paid principally to highly compensated employees. Actually, only a small percentage of the benefits under our employee benefit plans are for highly compensated employees.

In summary, I believe that employee benefits are essential to the economic security of our workers, retirees and their dependents and that our workers would suffer if employer sponsored benefits no longer existed.

Sincerely,

Ernest L. Conti

Ernest L. Conti
Director, Risk Management

ELC/p

cc: S. Ekdom

REYNOLDS ALUMINUM
REYNOLDS METALS COMPANY · RICHMOND, VIRGINIA 23261

Vice President of Personnel

August 14, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Reynolds Metals Company wishes to take this opportunity to comment for the record concerning our position regarding the current tax-favored treatment of employee pension and welfare benefits, as addressed during the hearings held July 26, 27 and 30, 1984 by the Taxation and Debt Management Subcommittee of the Senate Finance Committee. Reynolds is a major, worldwide producer of primary aluminum, reclaimed aluminum, and fabricated aluminum products. It is the second largest aluminum company in the United States, and the fourth largest in the world. Our company is headquartered in Richmond, Virginia, with a network of 51 domestic operating locations and a current employment of 29,000 people.

Reynolds Metals has long provided a comprehensive program of benefits for its hourly and salaried employees. These benefits have assured a significant level of financial security for employees, without which the responsibility of the public

sector to provide for its citizens would have been substantially increased. We provide benefits for our employees primarily for two reasons:

- our employees have certain needs that can be met more effectively through corporate-sponsored plans covering a group of employees than through their own individual efforts; and
- companies with whom we compete for employees provide employee benefits, and our ability to attract and retain qualified people would be severely restricted were we to provide no benefits.

While it is clear that if no employers provided employees with benefits, the second of these reasons would no longer apply, the first will always apply irrespective of individual employer practices. Because this is the case, and because our providing benefits to our employees reduced the government's burden, we strongly believe that it would be unwise to eliminate the basic tax structure which encourages employers to provide employee benefits.

Obviously, there must be a balance between revenue loss and support for corporate-sponsored benefit programs. However, if a reduction in a current tax incentive for a benefit results in a greater government cost in the long term, all that has happened is that the revenue loss has been delayed.

While there questionably are abuses of the tax system, they are the exception rather than the rule. National tax policy should not be designed on the basis of the exception.

Our national policy on employee benefit plans needs to reflect social and economic interests that go far beyond tax expenditures and the abuse of tax shelters. Many other factors need to be taken into account. A critical example of this is in the area of medical cost control.

Health care cost containment is a critical national concern. Nonforfeitble spending accounts (or benefit banks) are techniques that provide significant assistance in achieving cost containment. In the opinion of many, these were and should continue to be techniques permissible under Section 125 of the Code. Yet for revenue considerations and concerns over potential tax abuse, the Internal Revenue Service has held that such techniques violate the law. (In passing the Deficit Reduction Act of 1984, it has been asserted that Congress has sanctioned the Internal Revenue Service position.) In this instance, tax policy seems to conflict directly with the broader social objective of achieving health care cost control.

It is not a given that Reynolds Metals or other employers will provide an employee benefit program in the absence of tax incentives. If all tax incentives were eliminated, i.e., the value of all benefits would be included in an employee's taxable income, a logical position for employers to take might be to eliminate an employee's benefits and increase his pay. For employees the result, in some cases, would unquestionably be that

much-needed benefits coverage would end. Therefore, any consideration of reductions in tax incentives must recognize the possibility that benefit programs could be eliminated by employers unwilling to bear the administrative burdens of benefit programs without financial/tax incentives.

The Subcommittee, in its press release of June 4, 1984, solicited testimony on various issues relating to employee benefits and identified six specific areas of interest. Our comments above have touched upon most of these areas, but we would like to conclude with some brief observations on each point:

(1) Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?

In our judgment, tax laws should encourage employers to provide the major employee benefits, i.e., those that provide economic security against the major hazards faced by employees. Thus, we favor the support of retirement, death, disability and medical expense plans.

(2) What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits?

The answer to this questions varies depending on the nature of the benefit. However, we believe that reasonable nondiscrimination requirements are appropriate for all employee benefit plans, and such restrictions will not discourage those employers not presently abusing the system from providing

benefits. We believe, further, that any conditions and restrictions must be clear and must not be subject to frequent change.

(3) Are the existing rules concerning fringe benefits sufficient to ensure that all employees benefit fairly from the tax incentives?

In our judgment, the existing rules appear to be sufficient. In some respects, the rules may be unnecessarily rigid and thus counterproductive.

(4) Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross section of employees at a lower total cost than if the Government provided the benefits directly, if employers provided the benefits on a taxable basis, or if employees purchased these benefits on their own?

We believe that the most cost-efficient way of delivering employee benefits is through the current system and with the current tax incentives. However, we want to emphasize that the efficiency of the private system is vulnerable to excessive and unwarranted regulation and restrictions. For example, the growth of cafeteria plans has been hampered by the positions taken by the Internal Revenue Service. Much of the IRS position appears to exceed the agency's statutory authority. Further, Congress' hasty action on Section 125 in the Deficit Reduction Act of 1984 does not encourage the continued growth of the cafeteria plans.

(5) How will tax laws that encourage employers to provide fringe benefits affect compensation planning?

We believe that such laws can have a positive effect on compensation planning. However, because of its frequency, recent legislative activity is having just the opposite effect. Employers are increasingly reluctant to plan ahead or to commit themselves to long-term obligations. Most find themselves in a reactive mode and are simply trying to cope with almost constant change.

(6) Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?

We believe the presence and level of benefits has an impact upon an employee's choice of employment, especially when the employee reaches age 40 and later. This belief is a motivating factor behind Reynolds' position as a company providing first-tier benefits to its employees. The current tax structure helps make it possible for Reynolds to offer such a benefit package.

Reynolds Metals Company appreciates this opportunity to participate in the process of establishing sound governmental policy. We strongly believe that the private sector is the most effective way to provide for employees' financial security. As stated above, we are committed to supporting an approach which has proven successful.

Sincerely,

John R. McGill

John R. McGill

RIVERSIDE HOSPITAL

July 16, 1984

Senator Robert Packwood
Chairman, Subcommittee on Taxation
and Debt Management
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Hearing on Fringe Benefits
July 26, 27, 30, 1984

Dear Senator Packwood:

As the Personnel Director of a corporation with over 1800 employees, I am concerned about the continued efforts to tax the fringe benefits of employees. It is my observation that such legislation will affect a broad cross section of employees and the benefits they now enjoy. These benefits range from the traditional health and life insurance programs to the newer benefits such as child care. As such, the taxation of fringe benefits will not result simply in the reduction of benefits of upper income employees but, indeed, will economically impact all employees at most corporations. Additionally, over a period of time, this impact on the employee will increase with the proportionate increases in the costs of such benefits. Therefore, I urge you and your committee to change your focus from the taxation of employee fringe benefits to another area that does not undermine the traditional role employer sponsored and assisted benefits have played in the financial security of the typical working person.

Thank you for your time and consideration.

Respectfully,

Larry L. Boyles
Personnel Director

LLB:gm

Robbins
Plumbing and Heating Contractors
13329 Florence Avenue • Santa Fe Springs, CA 90670
Phone: (213) 944-9793 • State License No. 234793

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Dear Sir:

The benefits my company buys my employees are beneficial to the company as a tax write off and benefit the employees in several ways. If these benefits were taxed (to the employee or the employer), the net result would be an increased cost for these benefits and therefore would make the benefits less available (because of increased cost).

Furthermore, if these benefits were optional on the employees part, there would always be a more immediate need arise, where they wouldn't find the money (for insurance, etc.) and would suffer when the medical needs arose. In as much as a government agency taking care of these needs, I think the record of past performances on the behalf of bureaucracy immediately rules out that viability.

Please find another way of taking more of our money and don't screw up part of our free enterprise system that is working just fine for everyone in our business One of the main reasons our country's economy is so superior is because business has a strong vested interest (tax wise) to re-invest constantly.

Please let us re-invest in our employees welfare without destroying that incentive.

Sincerely,

Glenn R. Scott
President

GRL/ldr

Robertshaw
CONTROLS COMPANY

1701 BYRD AVENUE • P.O. BOX 26544 RICHMOND, VIRGINIA 23261-6544 TELEPHONE 804 • 281-0700

EXECUTIVE OFFICES

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

We are submitting this comment to you to indicate our Company's concern about the treatment of employee benefit programs under existing and proposed federal legislation.

Robertshaw Controls Company employs approximately 8,300 persons throughout the country and offers a comprehensive package of fringe benefits to virtually every employee. Included in this package are defined benefit retirement plans, life, health, dental and disability programs as well as a Tax Reduction Act Stock Ownership Plan. Because of the favorable tax treatment afforded both employers and employees in many areas of these fringe benefit programs, our company has been able to expand these programs over the years to assure our employees of needed protection and a meaningful income upon retirement. We believe tax legislation should continue to encourage the formation of these plans, not discourage them through proposals such as a tax cap on health premiums or severe limitations on the deductibility of dollars pledged to these programs.

It has taken many years to develop our existing programs and it appears that under existing legislation, we have the means to provide the benefits that are todays social necessities. Since each employer's fringe benefit package is

tailored to the needs of its employees, we cannot agree to a government mandated level of benefits that may only be appropriate for a few corporate sponsors.

At Robertshaw, we are promoting the three-tiered approach to providing benefits and retirement income, i.e. programs of the employer, the government and personal plans. Only by maintaining a balance among these three areas are we confident of providing quality benefits to our employees. Rather than limiting the tax incentives on employer and employee, which would tilt the tripod toward the federal government as the main supplier, we encourage the retention of existing standards and regulations regarding pension, savings and welfare plans. Also, we would applaud the liberalization of certain legislation that would lead to increased participation by the individual such as expanding the IRA allowance.

In any event, the favorable tax treatment of fringe benefits has promoted the numerous plans that are in effect today and have given employees throughout the country opportunities and needed protection that was not available in the past. We see no reason to deteriorate this vital system for the want of revenue dollars.

In summary, the overall administration of employee benefit plans should remain the responsibility of the private sector. The group insurance and pension plans of this company have been in effect for many, many years and have expanded and improved with company growth. Through this history of experience, the company as sponsor has developed prudent policies and efficient procedures. These cost effective measures have enabled the company

to apply the resultant savings toward enhancing plan benefits. It is logical to presume that similar developments have occurred in the benefit area in all segments of business in this country - manufacturing, professional, service organizations and others.

The employee benefits system as it exists today promotes goodwill between employers and employees. To dismantle any segment of existing benefit programs and move them from the private sector to the public sector would hinder its progress. We urge you to support the present system for the good of all plan sponsors and participants.

Respectfully Submitted,

ROBERTSHAW CONTROLS COMPANY

Anthony S. Brozna

Anthony S. Brozna
Administrator-Employee Benefit Plans/
Assistant Treasurer

AB:sce

Rollins College

The President

September 25, 1984

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: CHARITABLE CONTRIBUTIONS LAW -- Senate Bill S.337, sponsored by Senator Bob Packwood

Dear Mr. DeArment:

I feel strongly that the Charitable Contributions Law, which allows non-itemizers to deduct their charitable contributions above the line, should be made permanent, rather than expiring in 1987. Educational institutions like Rollins College, which I serve as president, depend upon private support. For some years now we have sought to expand the base beyond a few wealthy donors to encompass a larger segment of our alumni. Significant numbers of them are in the younger classes, and because of income levels are unlikely to itemize. We also have substantial numbers of loyal older graduates who, now that their mortgages are paid off and they are living on retirement incomes, probably do not itemize. The help of these individuals is badly needed if we are to raise our participation in annual giving beyond the present 32% of our graduates. The Charitable Contributions Law provides important encouragement to them to make charitable contributions to Rollins and other eleemosynary institutions.

I also support Senator Packwood's bill for the following reasons:

1) A charitable deduction for non-itemizers is an incentive to charitable giving and enables taxpayers to give more than they would otherwise contribute;

2) With the cutbacks in federal spending, a permanent deduction for non-itemizers would provide a dependable source of funds on a continuing basis;

3) A permanent deduction will enable charities to provide increased and better services to the public;

- more -

4) The deduction broadens the base for charitable contributions, involving more lower income donors in private philanthropy;

5) The deduction for non-itemizers helps offset any decline in giving resulting from the decrease in income and estate tax rates under the 1981 Tax Act.

I understand that written statements in lieu of testimony will be in the printed record of the hearing and request that mine be included.

Sincerely,

Thaddeus Seymour
President
ROLLINS COLLEGE
/cr

cc: Senator Bob Packwood
Senator Paula Hawkins
Senator Lawton Chiles

RONALD F. ROBBINS, D.D.S., P.S.
ORTHODONTICS
A-109, ALLENMORE MEDICAL CENTER
TACOMA, WASHINGTON 98405

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Dear Mr. DeArment:

"Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committe, Subcommitte on Taxation and Debt Management." "By" Ronald F. Robbins, DDS.

Recent discussions on eliminating the private sector Qualified Pension and Profit Sharing Retirement Plans has prvoked us to commit to writing our feeling on why we need to have a strong Private Pension System in this country to supplement Social Security Retirement Plan.

We need to preserve and strengthen the Private Sector Retirement Plan System rather than imposing more restrictions and penalties. We have earned the right to retire and enjoy the fruits of our labors over and above what Social Security allows us. Needless to say, it is unfair to someone who has been paying into it since 1936.

The monies generated in the private sector affect every part of American business. The loss of this sorce of capital would have a great effect on the continued economic growth of our country.

In my company there are only five employees, but they all share in our Retirement Plan. If the tax incentives are removed, it no longer becomes beneficial to maintain the plan and it would be dropped and the employees would lose their benefits. In as much as most people do not have an IRA this becomes another blow to the working public who is trying to maintain some kind of retirement program.

In short, it isn't fair and it's about time we received some consideration from our government.

In my plan:

a. all are women employees but me.
b. all receive benefits over and above retirement.
c. are adjusted with inflation.
d. gives employees peace of mind about their futures.

Private enterprise has built an effective arrangement covering the needs of employees through benefit plans. It is much better than any government program. It would not serve the purpose of greater tax revenues, because it would upset the program of serving the employee needs. If this program is destroyed it becomes a burden to the government which has shown it cannot meet the need as well as the private sector.

CITY OF ROCK HILL
155 JOHNSTON STREET, P.O. BOX 11706
ROCK HILL, SOUTH CAROLINA 29731

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg., Room SD-219
Washington, D.C. 20510

Dear Mr. DeArment:

I wish to submit this written statement into the record of the hearings of the Finance Committee on the subject of Taxation of Employee Benefits to be held July 26, 27, and 30, 1984.

As a municipality, the City of Rock Hill has a two-fold responsibility. The City needs to be responsive to the needs of the community by providing programs and services that best serve the needs of all its citizens and it must provide a degree of economic security for its employees. Benefits are essential to the economic security of employees, since they provide for needed long and short range financial assistance and necessary services that supplement what employees can provide from their pay.

Benefits such as wellness programs, employee assistance programs, and education and training assistance serve to improve the standard of living and lifestyle of employees. These are of great holistic value.

You are urged to consider the great value to many millions of Americans of benefit programs provided by employers. The quality of living in this country is seen in the high value placed upon human needs. You are encouraged not to take any action that would prove to be detrimental to the well-being of millions of our citizens, who honestly give their labor.

Sincerely,

J. Emmett Jerome

J. Emmett Jerome
Mayor

ROLL FORMING
CORPORATION

P.O. Box 369
Shelbyville, Kentucky 40065

Phone (502) 633-4435
TWX 510- 543-2591

August 9, 1984

Submitted as Part of the Record of the Hearings on Employee Fringe Benefits held on July 26, 27 and 30, by the United States Finance Committee Subcommittee on Taxation and Debt Management

By: Roll Forming Corporation
P. O. Box 369
Industrial Park
Shelbyville, Kentucky 40065

The idea that the private employee benefit plan system in this country no longer needs or deserves tax incentives is inaccurate.

Roll Forming Corporation, as a corporate employer, sponsors two funded, trusteed employee benefit plans, each of which serves a distinct and important purpose for the approximately two hundred employees participating. One is an IRS approved Profit Sharing Plan with employees' participation optional. The Profit Sharing Plan encourages increased productivity and efficiency which contribute to the corporate profits to be distributed to the employees in accordance with the IRS approved plan. The second program is a non-contributory IRS approved Pension Plan (defined benefit) which provides retirement income in addition to that paid by Social Security. There is no out-of-pocket cost to employees participating in either of these IRS approved benefit plans. Social Security retirement benefits alone do not provide a sufficient income replacement ratio for the majority of our employees.

I would certainly not want to be the one to tell our employees that all of a sudden their Retirement and Profit Sharing Plans are being terminated since, thanks to Congress, their tax advantages no longer existed.

As you are probably aware, recent legislation mandates certain minimum levels of funding for lower paid employees. Just because virtually every benefit plan contribution formula is tied, some way or another, to salary, is no reason to believe plans in general primarily benefit higher paid employees.

The controls are in place, and really have been since 1974, to protect all levels of participating employees. The concept of eliminating tax incentives for private employee benefit plans would destroy the privately funded plans and force our nation's employees to rely on inadequate Social Security benefits which alone would reduce the living standards of our nation's retired to the poverty level. Perhaps a more useful project for this Subcommittee would be to hold hearings on the mismanagement of public pension funds.

JOHN JAMES RYAN, M. D.
SUITE 320 AUDUBON MEDICAL PLAZA
3 AUDUBON DR.
LOUISVILLE, KENTUCKY 40217
(502) 637-8721

PRACTICE LIMITED
TO OPHTHALMOLOGY

Aug. 12, 1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27, & 30 by the United States Finance Committee, Subcommittee on Taxation & Debt Management —

by John J Ryan M.D. P.S.C.

The pension plans would probably not survive absent tax incentives. To work an 80-hr week would be perfectly futile under those circumstances. By employing 4 girls I maintain their families; by my practice I support the hospital, pharmacy, manufacturers, opticians, etc.

My employees expect & appreciate fringe benefits; one must offer those to attract capable employees.

John J Ryan M.D. P.S.C.

STATEMENT OF CHARLES A. LYNCH IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS - JULY 26, 27 AND 30, 1984

Saga Corporation is a major U. S. employer with over 55,000 employees. The current and future welfare of our employees is greatly affected by the employee benefits Saga provides them. Because of the positive impact of these programs, we are concerned about employee benefit tax legislation. Our chief concern is the potential for unfavorable tax legislation that could prove damaging to these programs and our employees' welfare.

Current employee benefit tax legislation has resulted in corporations going to great expense to design, implement, communicate and administer employee benefit programs. These programs have met enormous fiscal and social needs for thousands of Saga employees and millions of other U. S. employees over many years.

Over the past 40 years, tax law has evolved to provide incentives for employers to implement numerous employee benefit programs for the protection and welfare of its employees. This body of tax law is a result of numerous and august groups of legislators reviewing, developing and sanctioning it. The reasons for its evolution are numerous and, it seems to us, powerful. Simply put, the law that provides these tax incentives for corporations to take care of its own employees by providing health, welfare and retirement programs that will financially protect them during their working careers and their retirement years should be left intact.

These employee benefit programs are ingrained in American corporations and represent as much as 30% of a large employer's payroll. In Saga, health and welfare retirement programs protect thousands of hourly and salaried employees and cost some sixteen million dollars annually. These programs provide our broad-based workforce with protection against illness, injury, disability, death and provide capital accumulation for retirement needs. In short, they have a very positive short and long term impact on our employees.

Future tax legislation in 1985 or after that would unfavorably affect the tax incentives of employee benefit plans could have very negative and long-lasting effects on these programs and employees.

As a major employer, we urge our legislators to consider the positive results from these programs. We ask our legislators to continue the current tax incentives for these employee benefit programs that protect millions of U.S. employees.

STATEMENT OF CHARLES A. LYNCH

Most Americans are concerned about our federal deficit. In attacking this problem, we suggest they seek advice from major U. S. employers and private citizen groups on prioritizing deficit reduction possibilities. While not a perfect process, it would provide direct feedback from employers and citizens on what reductions have the highest priorities. Our sense is that unfavorable tax legislation affecting employee benefits programs would be a low priority across the country.

We urge your committe, tax law drafters and fellow Congressmen to recognize the tremendous value of employee benefit tax incentives and resist reducing them.

We hope the hearings have a positive result and that our Congress listens to their constituency on this most serious matter. Please do not enact legislation which might negatively affect sound employee benefit programs that protect millions of our fellow Americans.

SAGA CORPORATION
One Saga Lane
Menlo Park, California 94025

By: _____
Charles A. Lynch
Chairman and Chief Executive Officer

Dated: _____

Telephone: 515 257-2422

SALSBURY LABORATORIES, INC. Charles City, Iowa 50616

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment

I understand that Senator Packwood held hearings on Fringe Benefits on July 26, 27 and 30, and that he has asked for written statements from plan sponsors of as many companies as possible who are concerned about the future of employee benefits.

I believe strongly that private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must. I believe that the ultimate price to our nation will be considerably greater under the governmental alternative than the private one.

We need only look at the governmentally-controlled employee benefit programs of the world's economy to easily note that they are usually inefficient, overly costly, and detrimental to both the productivity and competitiveness of those nations in the international marketplace. Indeed, many European nations are now seriously studying how to get out of these governmental programs in order to survive in the increasingly competitive world economy of the future.

A common mistaken impression concerning employee benefits is that these benefits are paid principally to highly paid employees. Actually, only a small percentage of the benefits under our employee benefit plans are for highly paid employees.

In summary, I believe that employee benefits are essential to the economic security of our workers, retirees and their dependents. Our workers would suffer if employer sponsored benefits no longer existed.

Sincerely,

T. V. Thaller
Vice President - Finance

TVT:amb

EVERETT H. SANNEMAN, P.S.C.
EVERETT H. SANNEMAN, M.D.
28 - SUBURBAN MEDICAL PLAZA
4001 DUTCHMANS LANE
LOUISVILLE, KENTUCKY 40207
(502) 897-2514

August 9,1984

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26,27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Everett H. Sanneman,M.D.

I wish to speak for the continuance of the private Employee Fringe Benefits plan

Before this plan was implemented it was not possible for self-employed small business or professional persons to establish any sort of pension/retirement program, with the same tax benefits as persons employed by large companies or corporations enjoyed.

This program allowed these people for the first time a way in which moneys could be set aside to supplement their Social Security payments after retirement. Certainly it would be simplistic thinking to think any one could survive on Social Security benefits alone.

In fact, the original ideal of Social Security benefits was to supplement individual savings or pensions/retirement plans, rather than to be the sole income for a retired person.

In view of the above statements I would strongly urge you to consider continuing the present Employee Benefit Plan in its current form.

BERNARD J. SCHOO, M. D.
1151 MEDICAL ARTS BUILDING
1169 EASTERN PARKWAY
LOUISVILLE, KENTUCKY 40217
(502) 456-5374

August 11, 1984

Submitted as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management by Bernard J. Schoo, M. D. I graduated from Medical School in 1946 and after spending my tour of duty with the U.S. Navy and eight years of further training as an intern, a resident in General Surgery and Fellowship in Pediatric Surgery, I entered private practice and earned my first dollar in 1956. I have spent the next twenty-eight years raising and educating my six children in private catholic universities in various parts of the country to give them the best education possible. This included medical school for one, and post-graduate school for others. All of them are now happily married and I have a total of nine grandchildren. Everyone is a successful young budding professional in his or her field. All of us have agreed that it is now time for Dad to spend the rest of his working days saving money for him and his wife for retirement in a few years. I did join the Keogh Pension Plan from the very first day of its existence until three years ago when I incorporated and my accountant put me in the Defined Benefit Pension Plan. This appealed to me and seemed logical to be the only way I could accumulate enough money to retire at sixty-six years of age. It is the only system I have had of accumulating a significant amount of money when I need it the most. Now I am told your Committee is considering altering this Plan severely. I have always worked an average of sixty hours a week and I have always considered my children, my wife and myself hard working, above average American Citizens and I believe I deserve some means of safe financial retirement. I do not believe the IRA and Keogh Pension Plan can possibly accumulate enough money for my adequate retirement. There must be thousands of people across the country in my age group who are depending on the present private employee benefit plan system for retirement and we deserve it. My one and only secretary, who has been with me for twenty-eight years, has been in all of my pension plans with me and she also deserves financial security. I am using the Plan exactly as it was designed to be used to accumulate some money during my last years of practice for a more secure financial retirement. The government will obtain the taxes from this money during my retirement years but at the present time the Plan is obviously serving a very useful, social and economical purpose for the thousands of people like myself and I do not want it to be altered significantly.

Thank you for your assistance.

Sincerely,

B J Schoo MD

Bernard J. Schoo, M. D.

Sea Island Company
POST OFFICE BOX 1027
SEA ISLAND, GEORGIA 31561 912-638-3611

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

B. R. Gibson
Director of Personnel

/cm

Enclosures

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management . . .

. . . by the Sea Island Company

While we can speak with authority on only our own commitment to designing employee benefit programs with integrity and a sincere belief in addressing the needs of all of our employees, it is hoped enough other employees indicate that they too subscribe to this philosophy so as to convince participants in these proceedings that such is the "rule" and not the "exception."

Our employment is 848 of which approximately 45% are black and 45% women. Our termination rate is under 10% annually. Our current average employment is 5.7 years (above average for the hospitality trade). The reason most employees cite for continuing their employment and being motivated to "do their best" is the company benefits program. To them, it is tangible evidence that the company cares about their health, the health of their families and their future needs as well as their present monetary requirements.

Our health, dental, life and disability insurance plans and our pension plan encompass all employees who meet minimal service requirements. In addition, our employees' eligible dependents are provided identical health and dental coverage at no employee expense. The pension plan is also wholly funded by the company.

These benefit plans are expensive to provide. With health care costs continuing to rise and pension benefits having to adjust for the consumer index, the very idea of imposing increased taxation is appalling. Increased taxation would certainly lead many small businesses to contemplate plan terminations. Then who would the American worker look to for assistance when a catastrophic illness seizes a member of their family? How much pride in workmanship can you instill through "company identification" with an IRA?

SEALRIGHT CO.,INC.

605 W. 47th STREET
P.O. BOX 11487
KANSAS CITY, MO. 64112

816 · 531 · 6666
CABLE SEALRIGHT
TELEX 42 · 6102

August 3, 1984
LFW-288-84

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Sir:

Enclosed please find the written statement of our company, Sealright Co., Inc., in connection with the hearings of the Subcommittee on Taxation and Debt Management on July 26, 27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

SEALRIGHT CO., INC.

Lou F. Williams

Lou F. Williams
Manager, Benefits

enc.

STATEMENT OF SEALRIGHT CO., INC. IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at Sealright Co., Inc. believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer the following benefit package to all of our employees: Group Life Insurance, Accidental Death & Dismemberment Insurance, Disability Insurance, Medical Insurance, and Defined Benefit Retirement and Pension Plans.

Sealright Co., Inc. employs a total of approximately 1150 people, 100% of whom are covered by the above benefit package. These plans cover 414 women, 321 minorities, 975 non-management employees as well as management employees.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

SELF INSURED SERVICES COMPANY — SISCO —
EMPLOYEE BENEFITS DIVISION

August 7, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Subcommittee on Taxation and Debt Management Hearings held July 26, 27, and 30, 1984

Dear Mr. DeArment:

John Butler, President of Cottingham & Butler, recently made me aware of the referenced hearings. John knows how strongly I feel about the advantages of employers self-funding their benefits, and of the good job that I feel we do for these employers.

As Claims Manager of a growing, young Third Party Administrator (TPA), I would like to explain how and why our firm came into being. Self Insured Services Company, commonly known as SISCO, is a subsidiary of a long established Dubuque firm--Cottingham & Butler, Inc.--who is the insurance advisor for many Dubuque area companies.

Many of these clients provide health benefits as part of their employee fringe benefit package. Many of these same clients found conventional insurance costs spiraling to the point where they could not afford to continue at the same rate of commitment. They realized cutting back on fringe benefits not only hurts employee/employer relations, but also in actuality would be a form of cost shifting to the tax payor in many instances.

It was at this point that SISCO was born. It had been proven by other self-funded plans that a Third Party Administrator (TPA) can dramatically cut the costs of administering claims while still paying the claims in a timely and professional manner.

In a self-funded plan, the employee and employer set aside a certain amount monthly (same as an insurance premium). That money is deposited in a Trust and can only be used for employee benefits. The employer cannot use this for any other purpose.

This same TPA (SISCO) has grown from 1 client approximately three years ago to 22 today. Our clients are from all areas--manufacturing, trucking, education, hospital and service areas. Employers using VEBAs are not just one segment of the population. These employers are not abusing the system, but are providing benefits to their employees in the most economical approach, and SISCO is paying these claims in a fair, efficient and non-discriminatory manner.

Self Insured Services Company
Dubuque, IA 52001

Every time an employer can purchase a needed item or service at a lower cost, he should be allowed to do so. Would you prevent a company from "self manufacturing" a needed part if he could provide the same quality/end result? WHY NOT EMPLOYEE BENEFITS?

The high cost of employee benefits is one of the reasons we are pricing ourselves out of the world market. Let "good old American ingenuity" have the freedom to provide needed, wanted and quality benefits at the lowest cost. Lower costs benefits everyone--not only the employer, but also the employee, the consumer and the tax payor.

SISCO has grown from 1 employee approximately three years ago to 7 full-time employees (and 1 part-time) today...and we are still growing. We pay claims for approximately 25,000 individuals. We are creating jobs in a community that has an employment problem. We believe in education, on-the-job training and community involvement. One of our most recent full-time employees was our Voc-Tech student-trainee from last year.

Besides the advantages of lower administration costs and the fact that a self-funded plan does not provide a profit, self-funded plans can be designed to meet the needs of the employees in unique situations. Young employees do not have the same wants and needs as a married individual with a family. In self-funded plans, employees realize this is indeed their money. If we can educate the American public to be a wise consumer in the health care field, we <u>can</u> contain health care costs.

I, as well as other members of the SPBA (Society of Professional Benefit Administrators), feel restrictions should be lifted and tax incentives should be increased--not the other way around. Free enterprise is the key to keeping costs down. If the employer does not have the freedom to provide quality benefits at the lowest possible cost, it will become economically impossible for him to provide them. These costs would eventually fall on the tax payor. Government has never administered any program cheaper than private enterprise.

If I could answer any questions, show how our facility works, introduce you to any of our clients or their employees, I would be honored to do so.

Sincerely,

SELF INSURED SERVICES COMPANY

Willy Schuller

Willy Schuller
Employee Benefits Claims Manager

WS:gs

cc: Senator Robert Packwood
Senator Roger Jepsen
Senator Charles Grassley
Representative Tom Tauke
Fred Hunt/SPBA
John Butler

August 2, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely

Barry A. Shepherd
11023 Buckeye Trace
Goshen, Ky. 40026

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Harry A. Shepherd
11023 Buckeye Trace
Goshen, Kentucky 40026

(1) The private employee benefit plan system does serve a useful social and economic system. I will be 60 years old in January and hope to retire in 5 years. This would not be economically possible without my current employee benefit program.

(2) Current regulations does not permit discrimination favorable to high paid employees

(3) My employee could not continue our benefits without tax incentatives.

(4) I have contributed the maximum permitted to my IRA. If I continue contributing the maximum until I am 65, I may have a total of $15,000 in my account. This may give me $75. monthly retirement. That won't feed my wife and I by 1989.

(5) Social Security Benefits would have to

triple by 1989 to enable me to even think of retiring.

(6) Everyone I have talked to about this is outraged that there is even talk about reducing employee benefits. That is about all we have going for us. I have worked all my life. I am tired and am disturbed that your committee may do something to ruin the few years I have remaining. Don't do it!

Danny A. Shepherd

Donna Simmons
Rt. 5 Box 510 A
Berea, Kentucky 40403

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment,

Consistent with your requirements, I am submitting this letter and the attached statement to be included as a part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Sincerely,

Donna Simmons

Donna Simmons

39-707 O - 85 - 85

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management. By Donna Simmons

I am employeed as a medical transcriptionist, making less than 12,000 dollars a year - with two children. There is no extra money to set aside for retirement. Social Security at its present stage does not provide enough income for our senior citizens to live comfortably now, unless they have some sort of added income.

Therefore, I urge you to reconsider any possible changes you might wish to make for the sake of those of us who can not afford to set money aside but who have employers, who because of the tax incentive are giving to private employee retirement funds.

SM ADMINISTRATORS
P.O. BOX 695 • EUGENE, OREGON 97440 • 503/683-4279

August 2, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD, 219 Dirksen
Senate Office Bldg.
Washington, D.C. 20510

RE: USS Committee on Finance, Sub Committee on Taxation and Debt Management, (fringe benefits)

Dear Mr. DeArment:

Please include this statement in the printed record of the above hearing.

My points of interest in this hearing result from being a Tax Payer, Employer, and an Employee Benefit Administrator.

It has been pointed out to me that Government works best when it can encourage the Private Sector to perform as many functions as possible to reduce the number of functions needed to be performed by Public Agencies.

In terms of addressing a public need such as health insurance, we need to consider the most efficient delivery system to satisfy the needs of the consumer and not be locked in to the consideration of profit, loss, or taxation. Experience has shown me that the private enterprise system is a much more efficient delivery system for health care.

This most efficient delivery system will be eliminated if Congress continues to pursue taxation policies which would eliminate the incentive of private enterprise to provide these employee benefits.

We need only to look at the Pentagon who regularly pays $269 for a socket wrench that can be purchased in the hardware store for $15 and Medicare and Social Security and many other Government run social programs to prove our point that Government is not an efficient delivery system.

Give us little guys a break and let us do the job that our free enterprise system was designed for.

Sincerely,

Gene Stewart

GS/tb

cc: S.P.B.A.
Hon. Robert Packwood

DR. WILLIAM E. SNOWDEN, P.S.C.
1216 West Lexington Avenue
WINCHESTER, KENTUCKY 40391
606-744-4211

Submitted as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27, and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Dr. William E. Snowden, P.S.C.

I would like to speak to the very important social and economic purpose of this Employee Benefits bill. It enables each person to add tax dollars to government budget when we retire and not have to live on Social Security. It would make a more even flow of cash spent on the economy. Not all of the people that are under this Employee Benefits are highly paid employees. To the ones that have no other way to produce a retirement fund, it is a God-sent item. How else can other people that are single corporations fund a retirement program without these benefits?

We could survive without these tax incentives but not as well and not as long. If we provide a good service to our fellowman we too should be allowed to have a tax advantage.

I feel IRAs are good but they are too little, too late for those that were able to take advantage of that program after forty years of age.

I find Washington people are no judge for what is or is not a grass root supported item. They loose contact with the real world of the working people and become sterio-type persons listening to each other each day.

Sorenson Engineering
"INCORPORATED"

32032 DUNLAP BOULEVARD
YUCAIPA, CALIFORNIA 92399
PHONE (714) 795-2434
FAX (714) 795-2434, Ext. 232

"Precision Automatic Lathe Products"

July 31, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Enclosed please find the written statement of Sorenson Engineering, Inc. in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26, 27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

SORENSON ENGINEERING, INC.

MRK:sf

Enclosure a/s

STATEMENT OF SORENSON ENGINEERING, INC. IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS - JULY 26, 27, AND 30, 1984

We at Sorenson Engineering, Inc. believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we offer these benefits to all our employees:

(1) Group Medical Insurance ($150 deductible then 80-20 coverage)

(2) Group Dental Insurance ($50 deductible then 80-20 coverage)

(3) Group Life Insurance

(4) Sick Leave

(5) Vacations, 11 Paid Holidays, Profit Sharing, Bonus Plans

We have chosen to provide benefits rather than additional cash wages because we consider these benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a much better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allows us to provide valuable benefits for our employees at a price we can all afford. Increasing the cost of benefits through changes in the tax law will mean that we will not be able to provide the same level of protection for our employees.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premiums we pay, we are vitally interested and involved with cost containment. We are constantly studying this problem and evaluating possible solutions.

We appreciate the opportunity to express our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistant with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

Sort-Rite International, Inc.
HARLINGEN, TEXAS U.S.A. 78551
P.O. Box 1805
825 W. Jefferson
Ph. 512/423-2427
Telex - 766-603

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D.C. 20510

Reference: July 26, 27 and 30, 1984
Taxation of Employee Benefits

Dear Mr. DeArment:

As a small manufacturing firm, less than 40 employees, we wish to add our statement for the record of the Senate Finance Sub-Committee on Taxation and Debt Management.

Our area, the Lower Rio Grande Valley of Texas, is known for its low rate of income. Subjecting our people to an additional taxation would be an added burden to an already desperate situation.

It is the company's intent to continue maintaining fair and equal benefits for men and women employees, regardless of their rate of pay.

These employee benefits boost moral as well as being essential to the economic security of our workers and their dependents.

Sort-Rite

We believe arrangements provided by private enterprise for its employee benefit system to be effective and efficient -- understanding the needs of our own people -- can government? Private enterprise deserves our government's encouragement not the dismantling of the employee benefit system.

What is good for
our employees --
is good for
our Valley --
is good for
our Country.

With sincere appreciation for the opportunity to submit our opinion, we remain

Very truly yours,
SORT-RITE INTERNATIONAL, INC.

Shirley Metzger
President

South Carolina Federal 1500 HAMPTON ST., P.O. BOX 69, COLUMBIA, S.C. 29202 • 803/254-1500

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I submit this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

C. W. Gasque
Vice President

CWG/sw
Attachment

"Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management."

By: C W Gasque

C. W. Gasque
Vice President
South Carolina Federal

I am profoundly concerned with suggestions and proposals that tax incentives which now support the private sector employee benefit system need to be reduced. On the contrary, I can think of numerous reasons why those tax inducements should not only be kept in place but even enhanced.

I have nearly 30 years experience in employee relations and the employee benefit programs which are an integral part of employee relations. I am convinced that our private sector benefit system is far superior to any government-sponsored program which would seek to replace it. It will be a grave mistake to dismantle or to reduce the private benefit system simply to enhance tax revenues.

If our private benefit system is not encouraged and permitted to meet the needs which it addresses, inevitably government will be called upon to meet those needs. The ultimate price paid by our entire nation for such government activity will greatly exceed the price of the benefits to private businesses and, assuredly, the value of those benefits to private citizens will be reduced. One has only to reflect upon the dissatisfactions with, and the deficiencies of, the Social Security Program to observe the results of government programs as employee benefits.

Beginning with the introduction and popularity of group term life programs in the 1920's, the private benefit system has steadily expanded its offerings to workers. Health care and medical programs came into being in the late 1940's and 1950's, along with capital accumulation (profit sharing, pension) plans. Subsequently, we have seen the introduction of long-term disability insurance plans, dental care plans, vision care plans and employee assistance plans. All of these benefits constitute now a package available not only to highly paid employees, available not only to male employees, but offered to the whole body of working Americans. They are evidence that the private sector has been responsive to changing needs of the working population.

In spite of enormous inflationary pressures largely produced by the government, benefits plans and particularly pension plan benefits have been adjusted repeatedly to alleviate the affects of that inflation. It is pain-

ful to contemplate how elderly retired citizens, dependent on fixed incomes, would have fared during the 1970's had employer-sponsored benefits, flexible and adjustable, not existed.

Finally, with the clear and urgent need for enhancing savings and capital formation throughout the entire United States, it seems imperative that we preserve, particularly, our private capital accumulation plans. The savings accumulated in such plans can be a powerful engine in our programs for economic development and progress.

In summary, I believe that private sector employee benefits have enormous social value to this nation. I would view with dismay and regret efforts to shackle or to reduce our benefits system.

Palmetto Center
1426 Main Street
Columbia SC 29226-0001

South Carolina
National Corporation

South Carolina
National Bank

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Jean Galloway Bissell

Jean Galloway Bissell
Vice Chairman and General Counsel

JGB/rl

Attachment

Statement

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

By South Carolina National Corporation and The South Carolina National Bank.

The private employee benefit plan system needs and deserves the tax incentives which currently support that system. Our experience in administering such plans through our Trust Department has shown us that there is strong "grass roots" support for such plans and that they could not survive without certain tax incentives. IRAs and IRA type vehicles cannot meet the needs currently being met by these plans. Contrary to some claims, private employee benefit plans do not primarily benefit highly paid employees.

We could go on at length about these points but will let this suffice as our statement in favor of continued support for the private employee benefit plan system.

Southern States
Cooperative, Inc.
6606 West Broad Street
Post Office Box 26234
Richmond, Virginia 23260
Telephone 804 281-1000

Southern States

Statement of P. E. Campbell in connection with the hearings of the Senate Finance Subcommittee on Taxation and Debt Management on the subject of Employee Fringe Benefits held on July 26, 27, and 30, 1984.

Southern States benefits program provides benefits for a non controlled group of 121 employers with the aggregate number of employees numbering about 3300 in a five state area. Annual welfare benefit insurance premiums exceed $6,000,000. The medical insurance policy alone will provide about $4,000,000 of benefits during the current policy year. The funding of the retirement plan this past plan year required the companies to contribute about $3,500,000; the plan is a defined benefit plan and as such requires only employer contributions.

Southern States benefits program is structured to provide the same benefits for all eligible employees regardless of status. For example the President and C.E.O. has the same family medical benefits and pays the same annual contribution as the lowest paid employee with like family coverage.

Some welfare benefits are provided through various group insurance policies. These policies provide the same benefits to women as to men for like claims.

Most benefits provided under the retirement plan have been increased twice in the last four years; the most recent increase was effective July 1, 1984. These changes permanently increased the monthly benefit for the eligible retirees and surviving spouses of retirees.

Altering the tax treatment of these benefits in the name of greater tax revenues whereby the employees and the companies would no longer have an economic incentive to participate would, in my opinion, be a disservice to all our plan participants and contributing employers.

Annually we review the cost of all of our benefits with the objective to control these costs while providing meaningful benefits to all employees.

STATEMENT OF SOUTH GEORGIA MEDICAL CENTER IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS JULY 26, 27, and 30, 1984.

We at South Georgia Medical Center accept the responsibilities incumbent upon employers to meet the basic needs of our employees for financial security. Accordingly we offer a benefits package to our employees which amounts to about twenty percent of base salary. The package includes health and dental insurance, paid vacation, holidays, sick leave, attendance bonus, retirement and savings plans and life insurance.

Of our 850 full time equivalents, 80 percent of whom are female and thirty-four percent of whom are minorities, about 800 are eligible for our benefits plans. The plans are available to all levels of employees.

It is our choice to provide these benefits, in addition to regular wages, because we consider the benefits essential to the economic welfare of our employees. We are able to provide health insurance coverage for example at a far better rate and a much more comprehensive plan than our employees could obtain on an individual basis. Increasing the cost of benefits through changes in the tax law will mean that we may not be able to provide the same level of protection in the future.

We are in a unique position as both a provider and a consumer of health

care. We clearly recognize the fact that health care costs have risen dramatically. We, along with our employees, share in the premium costs and are vitally interested in cost containment. In recent years we have increased the amount of our deductible and modified the plan and method of premium payment. At this moment we are evaluating our coverage for the next year and giving consideration to requiring second opinions before surgery and limiting coverage for cosmetic procedures.

We welcome the opportunities provided by the Subcommittee on Taxation and Debt Management to express our opinions on the value and importance of employee benefits. It is our belief that encouraging employers to provide such benefits is consistent with the social and economic policies of our nation and merits continuance of the provisions which provide incentives to both employers and employees to commit their dollars for this purpose.

SOUTHERN CARDIOVASCULAR ASSOCIATES, P.C.
1550 DOCTORS DRIVE, SUITE 301
LA GRANGE, GEORGIA 30240
404/884-2641

ROBERT B. COPELAND, M.D., F.A.C.P. PRACTICE LIMITED TO CARDIOLOGY

August 3, 1984

Mr. Roderick DeArment, Chief
Council Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, DC 20510

Dear Mr. DeArment:

For the July 26th 27th and 30th, 1984, hearings on taxation of employees' benefits, Southern Cardiovascular Associates, P.A., would like to include the following statement:

Our Profit-Sharing Plan was created in June of 1977 when this business was organized. One year later a pension plan was established. These plans have been carefully designed and managed for the good of all of our employees, not principally to the highly paid. The minority of the participants in the plan are men. We have attempted to adjust for inflation adequately with salaries, and the percentage calculations for contribution to the Profit-Sharing and Pension Trust reflect that, therefore, adjusting for inflation. Our employee benefits are essential to the economic security of our workers and their dependents. The plans were designed for their benefits, and they have been managed very carefully to provide what they were meant to do: economic reward for the retirement years earned by responsible work and free of the insecurities of Social Security. Our workers certainly will suffer if employee-sponsored benefits do not continue to exist.

Private enterprise has built an effective and efficient arrangement to cover needs of employees through employee benefit plans. I am not aware of similar government programs that begin to provide the same measure of benefits for the same cost. To systematically dismantle such systems for greater tax revenues is penny-wise and pound-foolish. Private enterprise needs to be encouraged to meet the needs of our people, not be forced to be increasingly dependent on and subservient to an increasingly large and expensive government. Steps should be now being taken to preserve and strengthen private enterprise retirement benefits systems rather than imposing more costly restrictions and encumberances.

-continued-

Without tax incentives, we would have to close our qualified plans. In that case, our employees would lose more than the owners of our business. We would cancel our plans if deposits to the trust were not tax-deductible.

I trust these strongly felt, basic concerns and commitments will be noted at the hearings on employees fringe benefits.

Sincerely,

Robert B. Copeland, M. D., President
Southern Cardiovascular Associates

RBC:vw

South Mountain Medical
Twenty-four Buxton Avenue
Asheville, NC 28801

704-258-3464

July 25, 1984

Mr. Roderick A. De Arment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Dear Mr. De Arment:

This is our statement for the record of the Senate Finance Subcommittee on Taxation and Debt Management. Our hearing on Taxation of Employee Benefits is July 26, 27, and 30, 1984.

We are a small manufacturing company of disposable medical products and have been since March of 1981. South Mountain Medical is an Equal Opportunity Employer who employes approximately 75 people. The majority of our employees are low income persons with very little income outside of what they earn from us. These employees would have to live off of government subsidy without the jobs that we give them.

Our health and life insurance plan is designed to encompass each employee who wishes to participate. We offer a health care program designed to alleviate the economical burden that a catastrophic illness would encurr. Our $100.00 deductible is designed to keep the medical cost low enough for the hourly employee to handle. We also offer an incentive program that pays 100% for a second opinion on surgery and 100% for any surgery done outside the hospital, as in a clinic or doctor's office. Many of our employees have taken advantage of this program at no extra financial burden to themselves of to their families.

Our company also offers a life insurance plan with the health care plan to ease the burden on the family in case something should happen to the employee. This pays for the funeral and gives some extra to help the family through the transition period following the death of a loved one. Our company has a disability plan in addition to Worker's Compensation, should the employee become disabled outside of Worker's Compensation. This plan pays 80% of their annual salary until retirement.

With medical costs as astronomical as they are today, many of our employees choose a company, and our company in particular, for the fringe benefits we offer. As small and young as our Company is, we could not offer these benefits if we were taxed on them.

We look ahead to continued growth which will enable us to add more benefits such as retirement and pension plans. If we are taxed on what we are doing now, we would regress instead of progress with our benefit package.

Companies can effectively and efficiently cover the needs of the employee as we deal with them on a daily basis. Because of this, we can determine their individual needs better than any program the government could provide.

There is no doubt that the employee needs to be protected against the financial ruin that a catastrophic or prolonged illness can bring. We feel that this need would be better met through the employer, not through the government with higher tax revenues.

Very Truly Yours,

Dennis E. Farrell

Dennis E. Farrell
President

DEF/cvn

Southwestern Life Insurance Company
A Tenneco Company

KEITH W. LEWIS
Regional Pension Manager

Suite 1520, 700 East Main
P. O. Box 1455
Richmond, VA 23212
(804) 648-2000

July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment,

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

KWL:dr

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Keith W. Lewis
7623 Bryn Mawr Road
Richmond, VA 23229

I am very concerned about the congressional movement to reduce the tax incentives accorded the private employee benefit plan system. To do so would be a grave injustice to the citizens of this country. Some of the many reasons are listed below:

- Reduced employer/employee incentives would inevitably result in fewer employees being covered under pension and welfare plans. These results would put added strain on the federal government safety net. The federal government proved long ago that it was the most inefficient delivery system yet devised.

- The private pension system aids in the capital formation so necessary for a strong economy. Our economy needs more, not less capital formation.

- Pension and welfare plans sponsored by employers serve society by providing coverage for many employees who might otherwise go without.

- Reducing the attractiveness of private pension plans might well add additional strain to an already strained social security system.

SPARTA PIPES, INC.
DIVISION OF DR. GRABOW PRE-SMOKED PIPES
P.O. BOX 849 • SPARTA, NORTH CAROLINA 28675 • (919) 372-5521

1984 JUL 30 AM 10 31

July 24, 1984

Senator Bob Packwood
259 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Packwood:

According to your recent press release you will be holding public hearings on July 26, 27, and 30, 1984 concerning "Employee Fringe Benefits". I would respectfully submit my views on benefits and taxation pertaining to these benefits.

I am a firm believer that America's strength and general welfare depend on the strength of America's economy, not the strength of the Federal Government. Fringe benefits strengthen the individual, the company they work for, and the nation in general. Companies compete for employees, and fringe benefits are one of the tools. Fringe benefits keep workers on the job, protect them in times of need, and in some cases provide a small estate at retirement to supplement social security.

With our present federal and state tax structure, it is difficult for an individual worker to make ends meet. I am sure many would like for each company to drop their fringe program, and put that money in the paycheck. What happens then in case of illness, death, or retirement? Would the Federal Government take care of all needs? We all know that any program administered by the Federal Government will cost substantially more than if administered by private enterprise.

Relieve all taxation from fringe benefit programs and let the companies grow. A growing economy will always put more tax dollars in the till than more taxation.

Thank you for your consideration.

Sincerely,

SPARTA PIPES, INC.

Jack Martin

Jack Martin
President

JM/bp

cc: Mr. W. D. Blalock

Spartan Food Systems, Inc.

Post Office Box 3168 Spartanburg, S. C. 29304 Telephone 803/579-1220

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Bldg., Room SD-219
Washington, D. C. 20510

RE: July 26, 27, 30, 1984
Senator Packwood Hearings
Employee Fringe Benefits

Dear Mr. DeArment:

As a company with several thousand employees, we are quite concerned about our employees' benefit program totally and have always provided excellent benefits. We firmly believe the benefits provided are valuable to our employees and just as important will protect them from public assistance programs.

Our entire benefit program is keyed equitably to all our salaried employees and does not in any way overly reward the highest paid employees. All are included regardless of age or sex on the same basis of benefits.

For years, we have maintained a comprehensive program from sick pay through pensions to assure our employees a good measure of security and freedom from worry.

The reaction of our employees is one of appreciation and pleasure for the benefits and we therefore, believe it is extremely important to be able to continue the company program.

We also are confident we can provide a superior total program to any government program which would replace it and at a more favorable cost.

The benefits programs should not be altered or dismantled simply because of the government's need for more tax revenues. This would be totally self-defeating.

Private enterprise should be encouraged to provide their employees a good program and benefit taxation would be in direct opposition.

We respectfully request your consideration of the above position. Our basic benefits are briefly outlined on the attached page for your review.

Respectfully submitted,

SPARTAN FOOD SYSTEMS, INC.

C. R. Sanders
Director of Personnel

CRS/dk

attachment

Attachment

Benefit	Cost
Hospital and Major Medical including dental $250,000 major medical $2,000 stop loss	Company paid all employees Employee paid Part of dependent cost
Life Insurance 2½ x annual compensation Double indeminity	Company paid all employees
Sick Leave 2 to 4 weeks full pay ½ pay per year add as short term disability	Company paid all employees
Vacation 1 week after 6 months 2 weeks after 18 months 3 weeks after 66 months	Company paid all employees
Pension Vesting after 3 years Full vesting at 15 years Pays 60% average compensation coupled with social security	Company paid all employees

Additional benefits are provided upon promotion and length of service.

1984 AUG -8 AM 9:48

SPARTAN MILLS

August 6, 1984

The Honorable Bob Packwood
Senate Russell Building
Room 259
Washington, D. C. 20510

SUBJECT: POSITION STATEMENT REGARDING HEARING ON FRINGE BENEFITS, JULY 26-30, 1984

Dear Senator Packwood:

As the employer of approximately 5,000 employees in North Carolina, South Carolina, and Georgia, I would like to make our feelings regarding the proposed legislation concerning fringe benefits known to the Finance Subcommittee on Taxation and Debt Management.

Employee benefit plans have been and still are the most efficient and cost effective way for delivering economic security to employees. Pension, life insurance, disability and health plans benefit employees at wage and salary levels, not just the highly compensated top executive. Preferential tax treatment for these plans has encouraged their growth and is a wise investment in the future economic security of our nation. If tax policy ceased to encourage employee benefits, certainly additional strain would inevitably be placed on public institutions and programs ranging from community hospitals through the Social Security retirement and disability income system. Congressional tax policy should continue to encourage employee benefits as a great contribution to the security of working people as well as our nation, and not regard them as simply an untapped source of revenue.

It is our position that should favorable tax status be denied employers in providing fringe benefits that are best suited for the needs of their employees within the framework of the dollars available for this purpose, a greater burden would be placed on the federal government to provide such needs. Such a burden would be at a much greater cost than the revenue received through legislation which lowered the incentive for employers to provide such benefits. In addition to benefits provided by employers, it is our feeling that allowing employees the opportunity to pay personal costs for child care, doctor, dental, legal, medical, and other expenses which are covered as deductible items on income tax returns with pre-tax dollars is a tremendous help to working individuals and families.

We firmly believe that private enterprise is the most effective and efficient, as well as economical, vehicle for providing the benefits needed by its employees and should not be erroded or further restricted by legislation.

Respectfully,

Walter S. Montgomery, Jr.
President

Sports Industries of America Inc.

O. C. CARMICHAEL, III
CHAIRMAN OF THE BOARD

P.O. BOX 100340
2005 ELM HILL PIKE
NASHVILLE, TENNESSEE 37210

July 16, 1984

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

Dear Senator Dole:

We received a letter from our insurance company explaining that the Subcommittee on Taxation and Debt Management will hold hearings to discuss the role of employee benefit plans in the United States. The letter listed questions on which members of the committee would like to receive ideas. The questions, along with my answers, are as follows:

*Should tax law continue to encourage employers to provide fringe benefits, and if so what ones? What level of tax incentives are appropriate?

Fringe benefits are a matter between an employer and an employee and can be decided best by the market. The government should not interfere in any way. The phrase "tax incentives" makes it sound as though earnings belong to the government which kindly allows us to keep a percentage as an incentive to keep on earning for the government coffers. If we must use that phrase, all I can say is, the more "incentives" the better off <u>all</u> of us will be.

*Are the present rules on coverage requirments adequate to ensure that all employees benefit fairly from the tax incentives?

"Fair" is an ill defined word used all too often by a government hungry to redistribute taxpayers money. The market is a most efficient way to allocate benefits appropriately.

*Could the government provide employee benefit coverages at cheaper cost, considering the loss of tax revenues from their present tax-advantaged status?

Once again, it sounds as if the government is hungry for our wages. No one should be so foolish as to believe the government could provide the necessary benefits, such as health insurance, more efficiently than the private sector. A business sees health insurance costs rise

dramatically year after year, and has every incentive therefore to seek the best policy at the least cost. Government, which uses other people's money, has no incentive whatsoever to control costs. Every government program always proliferates into an oblivion of numbers so large all one can do is count the zeros.

*Should employees purchase these benefits themselves rather than have them provided by their employer?

This is a question with which the government need not trouble itself. Employers could pay more if they did not provide benefits. Perhaps some employees would choose to receive higher pay and provide for their own health insurance, etc. However, this is best left to the individual employer and employee in a free market. No matter how benefits are provided, they should not be taxed.

I hope these remarks have been helpful to you and that you will vote to retain a free market in employer/employee relations. I am,

Sincerely yours,

O.C. Carmichael

O. C. Carmichael, III
Chairman of the Board

OCCiii/egp

Spradley & Coker

1100 Arcade Dr. / Suite 200
P. O. Box 8200
Little Rock, AR 72212-8200
(501) 224-1237

Employee Benefits

July 24, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Re: Taxation of Fringe Benefits

Dear Mr. DeArment:

I strongly urge you and the Senate Finance Committee to continue the current tax favored treatment of employee pension and welfare benefits.

As both a concerned employer, as well as the largest employee benefits firm in Arkansas, I know the value and importance of this matter to businesses in our state. To imply that benefits accrue to the highly paid is simply not true. In our own firm, 67% of the Group Life, Medical & Dental benefits go to those earning under $25,000 per year.

We assist small and large corporations throughout the South in helping design and purchase group insurance benefits -- i.e., group life, medical, dental, disability, etc. If these benefits suddenly become taxable to the employees,

or non-deductible to the employer, there would be a great injustice inflicted on all workers throughout the country.

I do not know of a single corporation we work with anywhere who deliberately provides more benefits at a higher premium cost just so their tax deduction will be greater. Quite the contrary, most all employers we see are now trying to find ways to hold down the cost and control their expenditures in every way possible.

Fringe benefits are a very important part of a corporation's total employment package -- both the cost of them as well as the quality. I sincerely hope nothing is passed or recommended to the Senate that would destroy this important tax incentive.

Sincerely yours,

Daryl E. Coker

DEC:ph

cc: Senator Dale Bumpers

August 9, 1984

STATEMENT BY

BENJAMIN R. WHITELEY, PRESIDENT

STANDARD INSURANCE COMPANY

PORTLAND, OREGON

TO THE

UNITED STATES SENATE COMMITTEE ON FINANCE

SUBCOMMITTEE ON TAXATION & DEBT MANAGEMENT

HEARINGS ON EMPLOYEE BENEFITS

HELD JULY 26, 27, and 30, 1984

This statement on the issue of employee benefits is submitted on behalf of Standard Insurance Company, Portland, Oregon.

In the press release announcing the hearings and inviting written statements (PR#84-148), the Chairman of the Subcommittee requested that six specific issues be addressed. Before specifically addressing these questions, I would like to present background information documenting Standard's interest in these issues, both as an employer and provider of employee benefits. Standard Insurance Company is a regional life insurance company, doing business in fourteen western states and the District of Columbia. At the end of calendar year 1983, Standard employed 698 full-time employees. working in eight western states, and approximately 270 life insurance agents. Standard's annual payroll for 1983 was approximately $13,769,000. Commissions paid to full-time agents approached $7,250,000. In addition, Standard

disbursed approximately $4,021,000 in employee benefits, or approximately 19% of its payroll and commissions. This percentage is actually unusually low. Due to an adjustment in one of our retirement trusts, contributions to that trust were not necessary for 1983. Normally, Standard will spend from 22 to 23% of its annual payroll and commission for the provision of benefits to its employees and agents.

Standard's employee benefit information is presented in detail in Attachment I.

As a life insurance company, Standard is also in the business of providing employer-sponsored benefits to other employers. Standard's primary market for its group insurance and pension products is small and medium sized employers (10-100 lives). Scope of Standard's involvement in employee benefits is shown in Attachment II.

In 1983, Standard paid more than $80 million in benefits to covered employees. This amount paid by a relatively small western company should demonstrate the importance that employer-sponsored benefits possess for employers, employees, and the national economy. To many of our approximately 3,500 disability claimants, the benefits paid by Standard under the employer-sponsored benefit plan represent their sole source of income. Without such benefits, these claimants would be forced to seek assistance from already overtaxed state and federal programs. Less tangible than actual benefit payments, but equally as important, is that these benefits are fully guaranteed. By state law, Standard must commit sufficient funds to its legally protected reserves to assure the future payment of the benefits which it is contractually obligated to provide. The funds will be there when they are needed.

Therefore, these employer-sponsored benefits provide a blanket of financial security for the American worker.

I would now like to address the six issues listed by Senator Packwood.

1. "Should the tax law encourage employers to provide fringe benefits; and if so, which benefits or services should be encouraged and what type and level of tax incentive is appropriate?"

Many provisions of the Internal Revenue Code have been enacted to foster certain perceived social needs. The legislative histories of the Social Security Act and the Medicare Act manifest Congress' concern over the economic security of the American people. These histories also indicate that Congress early recognized that government programs are only one tier in a three-tier system. The two other tiers are employer-sponsored benefits and personal savings. As the present Internal Revenue Code evidences, Congress has chosen to encourage employers to provide the benefits necessary to supplement government mandated programs. This encouragement has come at minimal cost to the national treasury--minimal when compared to the drain which would result if the national and state governments were responsible for providing even the most basic of these employer-provided benefits. The cost may be minimal, but the advantages which have accrued to the American worker by this conscious congressional encouragement are substantial.

While Congress has chosen to encourage employee financial security through various tax incentives, these same incentives have lessened the income of the national treasury. One such incentive, medical expense, has become an increasing and continuing drain on federal revenue. As indicated

in Attachment I, Standard paid $910,000 in medical claims on behalf of its employees in 1983. Our present projection is that we will pay approximately 25% more in 1984. These payments are deductible by Standard and tax exempt for our employees. As medical costs continue to spiral upward--they have nearly quadrupled since 1967--federal revenue will continue to decrease proportionately. This spiral needs to be broken, not by removing the tax incentive, but by Congress fostering equitable, effective cost-containment incentives in the health care industry.

In brief, Congress has long acknowledged the importance of encouraging employer-sponsored benefits. Congress should continue its encouragement of these benefits as a necessary element to guarantee the financial security of the American worker.

2. "What conditions or restrictions are appropriate on tax incentives to encourage employers to provide fringe benefits."

As is evident from the data contained in Attachment II, the present taxation system is effectively encouraging employers to provide benefits on the broadest possible basis to the American work force. Further conditions or restrictions imposed on employer-sponsored benefits would have a chilling effect. Employers would become more cautious in their compensation planning. Naturally, however, Congress should move quickly and effectively to cure any clearly documented abuse.

3. "Are existing rules concerning fringe benefits sufficient to insure that all employees benefit fairly from the tax incentives?"

Existing legislation, such as the Tax Equity and Fiscal Reform Act, the Deficit Reduction Act, and the Civil Rights Act, adequately safeguard the right of all employees to participate in benefit programs which are available to them through their employer on a fair and equal basis. For example, current laws have effectively discouraged employer-provided pension plans from disproportionately favoring the highly compensated employee. According to the United States Department of Commerce, 68.5% of the civilian work force who were covered under a pension program in 1981 earned less than $20,000.

4. "Are the existing tax incentives for benefits such as health care, life insurance, day care, educational assistance, and cafeteria plans effective in encouraging employers to provide these benefits to a broad cross section of employees at a lower total cost than if the government provided the benefits directly, if the employers provided the benefit on a taxable basis, or employees purchased these benefits on their own?"

As indicated in the information contained in Attachment II, employee benefits and the economic security which they guarantee are being provided on the broadest basis to the American worker. Standard alone insures or covers over 1,800,000 lives. The types, quality, and quantity of employer-sponsored benefits could be provided in no other way. To suggest that the government should assume responsibility for these benefits is to lose sight of the lessons taught by Social Security and Medicare and the increasing tax burden these programs impose upon the American people. Certainly, an individual employee could not provide himself or herself the same quality of protection if he or she purchased these benefits on the open market. A preexisting

illness may not, for example, permit an individual to purchase certain types of benefits, such as life or medical insurance, which require proof of insurability. In all probability, however, such coverage will be provided to the individual under an employer-sponsored benefit plan. The individual employee will find that some benefits are prohibitively expensive when purchased individually as opposed to a group basis.

It is clear that the intent of Congress to foster the growth of employer-sponsored benefits has been achieved. The present taxation system has served to encourage employers to provide benefits to their employees which in conjunction with mandated benefits and savings creates a cohesive whole in the employee's financial security.

5. "How will tax laws that encourage employers to provide fringe benefits affect compensation planning."

This question can be succinctly answered. Compensation planning is essential to a viable, profitable organization. The purpose of compensation planning is to design a competitive compensation package by blending salary and benefits. Compensation planning, in part, also seeks to minimize taxes in order to maximize profits. It is, therefore, more likely that an employer will provide those benefits which possess tax incentives rather than benefits which have no tax advantage to either the employer or the employee. This is particularly true when the benefit is taxed at the employee end. The employer will be less than enthusiastic about the additional administrative expenses which will be incurred in order to account and to report the additional income to the employee and to the taxing authorities.

6. "Will tax incentives for employer-provided fringe benefits affect potential employees' choice of employment?"

To a certain extent, this is but the reverse side of previous questions. Present flexible tax incentives have encouraged employers to provide benefits in a multitude of different packages with varied schedules of benefits and costs. Certainly, benefits play a role in a prospective employee's deliberation whether he or she will take a certain position. A prospective employee is more likely to choose a position which offers a particularly attractive benefit program which meets his or her particular needs. If tax incentives decrease, the present variety of choice among employers offering different forms of benefits will as proportionally decrease to the prospective employee's detriment.

Finally, in the last three years, Congress has enacted three major pieces of tax legislation (ERTA, TEFRA, and the Deficit Reduction Act). Each piece of legislation has substantially affected in one way or the other the taxation of benefits. It may be appropriate for Congress to allow time to study the effects of this legislation. In fact, such breathing room is essential just to allow the Internal Revenue Service time to issue implementing regulations on several important changes brought about by these acts. In the same light, such a breathing space will allow employers and others the necessary time to review and readjust their benefit program to comply with these new laws.

Respectfully submitted,

Benjamin R. Whiteley
President & Chief Executive Officer

BRW:mph

ATTACHMENT I

CALENDAR YEAR 1983

Employee Benefit[1]	Standard's Contributions	Employee/ Agent Contributions	# of Employees Participating	Benefits Paid
a) Tax Preferred Benefits				
Defined Benefit Retirement Trusts	$ 551,258	$ -0-	789[2]	$445,864
Thrift Plan	232,681	varied	504[3]	N/A
Health Insurance (including HMO)	840,364	172,660	2,371[4]	910,748
Group Term Life Ins. (including dependent coverage)	94,167	104,650	1,200	39,000
Accidental Death and Dismemberment	9,727	-0-	1,027	-0-
Travel Accident	995	-0-	N/A	-0-
Long Term Disability	34,100	86,675	1,004	115,978
Dental	144,260	50,040	1,200[4]	137,000
Educational Assistance	5,940	-0-	60	5,940
b) Statutory Mandated Benefits				
Social Security	1,361,750	1,361,750	1,082	N/A
State Unemployment	235,500	-0-	N/A	N/A
State Workers' Comp.	65,00	N/A	N/A	N/A
State Disability	9,820	9,820	129	N/A

1 - This table does not include those benefits which cannot be broken out with any accuracy from our payroll systems--such as temporary sick leave, vacation, and educational bonuses.
2 - 109 Employees or agents are 100% vested.
3 - 442 Employees or agents are fully or partially vested in Standard's contribution.
4 - Includes dependents and retirees.

ATTACHMENT II

CALENDAR YEAR 1983

Benefit Type	Premium or Contributions	# of Lives	Benefits Paid	Amount Insured or Assets
Pension & Deferred Compensation Plans	29,000,000	28,000	4,800,000	233,000,000
Welfare Benefit Plans				
Group Life Insurances	38,772,467	675,947	27,790,690	10,509,553,111
Group Depend.Life Ins.	997,416	129,942	549,800	313,271,970
Accidental Death & Dismemberment	4,145,438	442,017	2,156,873	7,082,302,245
Disability	79,007,063	524,196	44,543,994	912,877,410*
Dental	1,333,300	12,509	401,988	N/A

*Insured Payroll

Stanley
FURNITURE
a division of
Stanley Interiors
Corporation

Telephone: 703-629-7561 • Stanleytown, Virginia 24168

August 7, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Fred Gehrke
Vice President-Human Resources

FG:jh

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30, 1984 by the United States Finance Committee, Subcommittee on Taxation and Debt Management by Stanley Interiors Corporation, Stanleytown, VA 24168.

"Private enterprise has built an effective and efficient arrangement covering the needs of employees through employee benefit programs. We believe this system is far superior to any government programs designed to replace them. It should not be systematically dismantled in the name of greater tax revenues. If private enterprise is not encouraged to meet it and its employees needs, government must. And, we believe the ultimate price to our nation will be greater.

Stanley Interiors' benefit programs are designed to be shared fairly and equitably by all employees regardless of wages, sex or age. Stanley Interiors' pension plan benefits is based on last years' earnings and therefore keeps pace with inflation; the 401K plan is open to all employees regardless of income. There are no special health, insurance or pension plans available to only the most highly compensated employees. Stanley Interiors' benefits for all of its employees and their dependents are essential to their economic security now and in retirement."

August 7, 1984

Stanley,
Holcombe
& Associates, Inc.

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Randall Stanley

Randall L. Stanley

RLS/dp
Attachment

Eight Piedmont Center/Suite 310 · 3525 Piedmont Road, N.E. · Atlanta, GA 30305 · (404) 262-7522

STATEMENT

Submitted as Part of the Record of Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by The United States Finance Committee, Subcommittee on Taxation and Debt Management.

By Stanley, Holcombe and Associates, Inc.

We understand that some may feel that the private employee benefit plan system no longer needs or deserves any of the tax incentives which currently support that system. The purpose of our submitting this statement is to provide you with the collective opinions of our organization.

Social and Economic Purpose

While it is theoretically true that everyone could, perhaps, establish individual retirement objectives and set aside the money to fund those objectives, the facts are that few do.

The Social Security System, originally designed to provide a floor of protection, despite its massive expansion over the years, does not provide adequate benefits by itself. In addition, there is widespread belief, particularly on the part of younger individuals, that they will not receive the Social Security benefits promised them under current law.

There is, in our judgement, little comparison between the proper funding of private-sector plans and those in the public sector. Privately-sponsored defined benefit plans, which are subject to the minimum and maximum funding limitations of ERISA, are generally properly and adequately funded. Social Security, by contrast, seems constantly to be in danger of bankruptcy. Our lesson from this is clear — the private sector has done a significantly better job in planning for, and meeting, its commitment to the elderly.

Private plans do help provide retirement income for lower-compensated individuals and those who have no individual retirement accounts, thereby keeping them from becoming "wards of the State".

Survival Absent Tax Incentives

The examption of trust income from current taxation (Revenue act of 1921) and deductions for contributions to properly fund retirement programs (Revenue Act of 1926) have resulted in the current status of properly funded plans. The genesis behind these Acts was the strong concern, proper in our judgement, that employers were not funding their plans soundly.

In our judgement, any elimination of current tax treatment would trigger a complete reversal in the system. Those employers who could would terminate their plans entirely. Those who could not terminate would no longer fund their plans properly. The result would be the complete collapse of the private system and strongly increasd pressures on the Social Security System.

Primary Beneficiaries of the System

Prior to the 1982 Tax Equity and Fiscal Responsibility Act, benefits were limited by the provisions of Internal Revenue Code Section 415. The extent to which employer contributions to Social Security could be reflected in the benefit or allocation formula was determined under the provisions of Revenue Ruling 71-446. TEFRA's topheavy requirements mandated accelerated vesting and minimum benefit accruals in plans where more than 60% of the benefits are for the higher-paid.

Given all of this, it is difficult for us to perceive merit in the argument that the private system primarily benefits highly-paid employees.

Individuals Retirement Accounts

Prior to 1979 individuals who were covered by their employers' taxqualified plans could not purchase individual retirement accounts. Our experience was that very few found this limitation to be objectionable, since they preferred to rely on their employer-sponsored plan. Even today, with IRAs available to everyone, we suspect that they are far from universally utilized, due to two factors:

-- Many cannot, or believe that they cannot, afford the cost;

-- Choosing, establishing, and maintaining IRAs requires considerably more effort by the individual than participation in an employer-sponsored plan;

Any type of defined contribution plan provides indeterminate benefits, dependent on the level of contributions and the length of time and investment return on the money. For this reason they are not adequate replacements for the type of plan (defined benefit) under which an employer can commit to a predetermined level of benefit, taking into consideration such factors as length of service, compensation level, and other sources of retirement benefits.

In addition, individuals may not maintain their IRAs until retirement, since the 10% withdrawal penalty is in fact not that severe.

In our judgement, relying on IRAs or IRA-type vehicles, to the detriment of the current pension system, would be a disastrous mistake.

DIVISION OF RYESON CORPORATION

JOHN L. REYNERTSON
President

July 27, 1984

The Honorable Alan J. Dixon
United States Senate
230 S. Dearborn, Room 3960
Chicago, Il 60604

Dear Senator Dixon:

It has come to my attention that the United States Senate is scheduling hearings by the Finance Subcommittee on Taxation and Debt Management on the effectiveness of the fringe benefit, hospitalization insurance, that American industry have and are providing for employees. Needless to say, it is a very costly amount for any employer, and particularly for those who are trying to compete in the world marketplace it basically adds to our costs of manufacturing product and helps to make us less competitive in the world marketplace. Other countries such as Sweden provide this to their people through the government and therefore the individual manufacturer may not be directly charged except in the total taxes that are paid. I, however, do not believe that socialized medicine is effective either from a quality of care or cost/economic standpoint. Realistically the government cannot operate a business, which health care certainly is, effectively. I do believe that the government should provide tax incentives to those employers that provide their services to partially offset the increased costs of providing these services, enabling them to be more competitive in the international marketplace.

Even with this tax law encouragement, the acceleration in the cost of medical care must be reduced. The government's treatment of classifications of acceptable and non-acceptable charges has created some of the problem. We currently should be encouraging patients from hospital care to out-patient care, which would save considerable money. I would encourage you to vote for such legislative moves to correct the current requirements. We must remove the incentive to the medical profession to seek hospital care vs. out-patient care. This will tremendously decrease the cost of hospital insurance.

Also, I feel we should change our health insurance policies from payment for the first dollar to payment for excessive or abnormal medical costs. This would also discourage people from seeking help for common injuries or sicknesses which can be cared for by the person themselves. The largest costs in total of our health insurance is in the relatively minor injury or sicknesses which occur more frequently but many times become tremendously expensive due to hospitalization that may be unnecessary,but at the complete control of the Doctor, who derives economic benefits to a greater extent while a patient is hospitalized.

I do believe, however, that, without the health and life insurance program most manufacturers and businesses provide their employees, the employees would not provide it for themselves and could therefore incur serious financial losses due to a major medical problem. Their insurance programs should be dedicated to providing help on major losses rather than the minor ones.

3209 NORTH WOLF ROAD, FRANKLIN PARK, ILL. 60131 • PHONE (312) 455-8884

Our own hospitalization program is provided to all employees and costs 5.2% of sales. We have two distinct plans; one is based on union negotiations which were agreed upon, and the other for all office administrative and executive personnel. It includes dental, life, hospitalization and major medical coverage. Unfortunately, we need tax incentive support by the government to encourage manufacturers, businesses and consumers to increase the deductibility of the plans for the aforementioned reasons. I would certainly encourage you to vote on any change that would incorporate corrections of the problems enumerated above, but above all to encourage "wellness" programs to reduce medical costs.

I would also encourage you to, at a minimum, leave the tax advantages at their current level and, hopefully, increase the tax benefits to the employer and employee.

Sincerely yours,

John L. Reynertson
President & CEO

JLR/jg

SumX Corporation

August 9, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, DC 20510

Subject: Hearing on Taxation of Employee Benefits held July 26, 27, and 30, 1984.

Dear Mr. DeArment:

SumX is a small company with 25 employees. We provide life insurance and health insurance to all of our employees free of charge. Each employee can elect to cover his dependents with our major medical coverage with Pilot Life. Of our 25 employees, 19 are men and 6 are women. Each employee, including officers, is provided the same benefit.

We believe that these employee benefits are essential to the economic security of our workers and their dependents. Private enterprise has build an effective and efficient arrangement covering the needs of employees through the employee benefit system. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meets its needs, government must.

Sincerely yours,

R. Lane
Chief Financial Officer

RNL:jg

2211 Denton Drive • P.O. Box 14864 • Austin, TX 78761 • (512) 835-0330

THE SUNDAY SCHOOL BOARD
OF THE SOUTHERN BAPTIST CONVENTION
127 Ninth Avenue North, Nashville, Tennessee 37234

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

The attached statement relates to the Finance Subcommittee on Taxation and Debt Management hearings on fringe benefits. We appreciate this opportunity for input.

Sincerely,

Steven R. Lawrence

Steven R. Lawrence, Manager
Personnel Department

SRL:kw

Attachment

The Sunday School Board of the Southern Baptist Convention is an agency of the Southern Baptist Convention responsible for publishing and educational programs. The Board is a nonprofit organization employing about 1,850 employees across 23 states.

The Sunday School Board has provided an attractive package of fringe benefits for over 30 years. Attached is a summary of the benefits provided employees. These benefits have always been provided to all employees on a nondiscriminatory basis. All employees including laborers, clerical employees, professional employees, and our executives are treated alike.

Tax laws should encourage employers to provide fringe benefits to the level they can afford in order to provide society with benefits which government might otherwise have to provide. No doubt, the national health and welfare of society is much better because of benefits employers have provided over the years. It is doubtful that generally speaking an employer would provide nontaxable benefits in lieu of taxable wages because wages must be competitive from employer to employer. Even then, employer provided pensions and thrift plans become taxable when taken at retirement.

We favor retirement plans and other fringe benefits such as medical insurance, disability insurance, life insurance, etc. to be treated as nontaxable benefits or tax deferred benefits as they are now. It is our belief that employers have done a good job in providing benefits for their employees and that the alternative to the current system is one of government expanded social welfare programs.

SUNDAY SCHOOL BOARD EMPLOYEE BENEFITS

1. Group Hospitalization and Medical Insurance for Employees and Dependents
   - Hospital - 100% of first $500 in any calendar year, then 80% of balance.
   - Other covered medical expenses - $50 deductible in any calendar year, then 80% of covered expenses.
   - When 20% co-insurance reaches $1,000, plan pays 100% instead of 80%.
   - Unlimited benefit.
   - Board pays employee coverage; employee pays small portion of dependent cost.
2. Group Life Insurance
   - Board-paid employee coverage is 2½ times annual earnings up to $120,000 maximum coverage.
   - Dependent coverage is $2,000 each--small charge to employee.
   - Employee-paid supplemental employee coverage is 1½ times annual earnings up to $120,000 maximum coverage.
3. Travel Insurance
   - Board-paid coverage is $130,000 accidental death and dismemberment and $1,000 medical.
4. Accidental Death Insurance
   - Employee-paid employee coverage up to 10 times annual earnings ($250,000 maximum).
   - Employee-paid spouse coverage up to ½ employee coverage($100,000 maximum).
   - Employee-paid child coverage is $10,000.
5. Retirement Plan
   - Participation--after 1 year credited service or age 35, whichever is earlier.
   - Completely Board-paid.
   - Vesting--20% after 3 years graduating to 100% after 7 years.
   - Plan includes provisions for disability retirement, early retirement, and spouse benefits upon the death of the employee.
6. Employee Savings Plan
   - Employees may save up to 6% of earnings with the Board matching 25% of the employee contributions.
7. Vacations and Holidays
   - Depending upon length of service, vacations provided from 1-4 weeks per year.
   - 8 holidays each year are observed.
8. Absences With Pay
   - Regular employees are allowed time off with pay within some limits for hospitalization, illness, injury, death in the family, jury duty, etc.
9. Christmas Gift
   - Upon authorization by the Administration, employees receive Christmas gifts amounting to 2½% of the January-October employee's earnings.

SunLife
OF CANADA

One Sun Life Executive Park
Wellesley Hills, Massachusetts 02181
Telephone (617) 237-6030

U.S. Headquarters Office

August 1, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

I am writing you this letter on behalf of Sun Life Assurance Company of Canada and its subsidiary companies. We would like this written statement to be included in the printed record in the hearing on fringe benefits scheduled by the subcommittee on Tax and Debt Management for July 26, 27 and 30.

Sun Life vigorously supports the concept of government tax incentives to employers providing fringe benefits to employees. We as a company provide our employees with the following benefits:

- Unemployment compensation;
- Workers compensation;
- Pension;
- Life Insurance and Accidental Death and Dismemberment;
- Major Medical and Disability Insurance;
- Dental Insurance; and
- Tuition Reimbursement plan.

These benefits are offered to all full-time employees a majority of which are female. The amount of benefit provided to each employee is the same except for the life and pension benefits which are determined by salary. Dependents of employees are eligible for coverage under our benefit program.

Speaking both as an insurer which provides the type of benefits enumerated in this letter as well as an employer, we believe there is a genuine cost savings to the employee by having these benefits provided in a "benefit package" by the employer. We believe that current tax incentives are generally appropriate to encourage employers to continue providing these fringe benefits. We would suggest however that the cost of living indexes be built into the incentives, for example, in the area of life insurance, to insure that employers will provide a level of benefit commensurate with the economic needs of their

employees. We also do not believe that existing rules governing fringe benefits favor one class of employee over others, however, we are certainly in favor of rules and regulations of the kind currently in effect to insure generally that all employees receive benefits.

In closing, Sun Life's position is that employer sponsored benefit plans are essential to the economic wellbeing of employees. Government sponsored tax incentives promote the continuance of these benefits. Tax disincentives would substantially jeopardize these benefits, particularly in the case of the small employer. This would surely result in an economic hardship for employees across the nation who could ill afford the "street cost" of such benefits since the tax incentives, as well as the economics of group purchase, enable employers to absorb part of the cost of the benefits provided. This could lead to increased need for government sponsored welfare benefit programs, the cost of which could more than offset any tax gained by eliminating tax incentives for employer sponsored benefit plan programs.

Very truly yours,

Robert E. McGinness
Vice President and Counsel

REM/dmh

Sunset Moulding Co.

P. O. BOX 336 • YUBA CITY, CALIFORNIA 95991 • PHONE: LIVE OAK Area Code 916 695-2195, 695-2196

July 20, 1984

The Honorable Robert Dole
The United States Senate
Senate Office Building
Washington, D. C. 20510

RE: Employee Benefit Hearings

Dear Senator Dole:

In connection with fringe benefits provided by employers, we feel that the present laws should be left intact.

Any changes that would tax employees for the benefits would place a hardship on employees and would only start a round of pressure for salary increases.

We do not believe that the government could provide employee benefit coverage at cheaper cost .

The cost of fringe benefits for employers has escalated over the past ten years due to rising health care costs. Doctors have a tendency to charge top fees for treatment when a patient has insurance provided by an employer. The patient seldom questions the doctors about his charges and this gives the medical provider a free hand in determining the charge. A set fee for each type of treatment or a method would be beneficial that would encourage employees and patients to be conservative of the funds being paid out by the insurance company on behalf of the employer.

Very truly yours,

SUNSET MOULDING COMPANY

Gayle V. Morrison

Gayle V. Morrison, President

dnc

SYSCO

August 10, 1984

Mr. Roderick A. Dearment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Statement of SYSCO Corporation in Connection with the Hearings of the Senate Finance Subcommittee on Taxation and Debt Management on the Subject of Fringe Benefits July 26, 27, and 30, 1984

Dear Mr. Dearment:

I am writing to express SYSCO Corporation's ("SYSCO") strong opposition to any form of taxation of employee benefits. SYSCO and other private enterprises through their employee benefit systems have built an effective and efficient arrangement covering the needs of employees. It is far more beneficial and cost efficient than any public sector program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. Employees' needs exist and must be met. If private enterprise is discouraged through taxation from satisfying the needs of middle class working Americans, then the federal government will find itself providing such benefits at greater costs.

Specifically, SYSCO offers pensions, group health insurance, and tuition reimbursement to most of its 8000 plus employees. These plans treat all SYSCO employees fairly, providing a pension, group insurance, and tuition reimbursement to all employees regardless of compensation level, gender and race. Most of the employees covered are middle income individuals who rely on these benefits to provide for their living expenses in their retirement years, expenses during periods of illness, and to advance their level of education and thereby their economic well being.

Consequently, any tax on employee benefit programs would hurt those individuals that can least afford it. Any tax would discourage employers from expanding their coverages and could possibly lead to cutbacks in the programs already available. The government would in the end not be reducing the deficit. It would have to increase its expenditures for health care, social security, and education programs by the amount, if not more, than would be derived from any such tax. SYSCO strongly urges that Congress take a more

farsighted approach towards resolving the deficit and not harm an employee benefits system that works better than any other.

Sincerely,

John F. Woodhouse
President

EJL/jg

cc: E. James Lowrey
Michael C. Nichols
La Dee G. Riker

THOMASVILLE OB-GYN ASSOCIATES, P.C.
Thomas E. Arnett, M.D.
William A. Thompson, M.D.
Diplomates, American Board of Obstetrics & Gynecology
Fellows, American College of Obstetricians & Gynecologists

August 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, D. C. 20510

Dear Mr DeArment,

Submitted as part of the record of the hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Sub Committee on Taxation and Debt Management.

By William A. Thompson, M.D. and Thomas E. Arnett,M.D. of Thomasville OB-GYN Associated, PC. In view of recent discussions on eliminating the private sector qualified pension and profit sharing retirement plans we would like to submit to you our own situation and views concerning this.

Our pension profit sharing plan is designed for a medical practice employing two physicians and five full time employees that are nonphysician. Contributions have been annually in proportion to salaries and have averaged about half of the maximum that the law allows. With such a small number in this corporation the majority of the contributions obviously goes to the professionals. After seven years of incorporation there is already a substantial accumulation of retirement funds for employees who have been here for duration. The alternative to this retirement plan would of course be a Keogh contribution by the physicians. At our rate of contribution we would probably have not exceeded the maximum of this with absolutely none going to the employees.

In our particular situation the employees have definitely benefited by our incorporation status and the use of the pension profit sharing retirement plan through our corporation. We strongly believe that the social security system is inadequate for retirement and additional retirement plans are essential especially in view of the projected increase in the longer and more productive life after retirement. As the "service industry" continues to grow the numbers of employees in this situation will certainly increase and the need for retirement plans such as ours in small corporations will provide a substantial proportion of the necessary retirement fund for an increasing segment of this nation's population.

We support the continuation of qualified pension and/or profit sharing retirement plans for small corporations.

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

HEARINGS ON FRINGE BENEFITS
JULY 26, 27 AND 30,1984

STATEMENT OF THE TRAVELERS INSURANCE COMPANIES
FILED AUGUST 13, 1984

JOHN F. TROY
VICE PRESIDENT
GOVERNMENT AFFAIRS AND TRADE ASSOCIATIONS

THE TRAVELERS INSURANCE COMPANIES ARE PLEASED TO HAVE THE OPPORTUNITY TO SUBMIT A WRITTEN STATEMENT TO THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT AS IT CONSIDERS TAX POLICIES AFFECTING FRINGE BENEFITS. WE APPLAUD THE EFFORTS OF CHAIRMAN PACKWOOD AND THE SUBCOMMITTEE TO CAREFULLY ANALYZE THE IMPLICATIONS OF THIS ISSUE WHICH IS OF CRITICAL IMPORTANCE TO MILLIONS OF WORKERS AND THEIR DEPENDENTS.

THE TRAVELERS IS IN A UNIQUE POSITION TO COMMENT ON THE BENEFICIAL USES OF EMPLOYEE BENEFIT PROGRAMS. AS AN EMPLOYER OF NEARLY 30,000 PEOPLE ACROSS THE COUNTRY, WE OFFER OUR OWN EMPLOYEES NUMEROUS LIFE, HEALTH AND PENSION BENEFITS. IN 1983, THE TRAVELERS CONTRIBUTION TO ITS EMPLOYEE BENEFIT PACKAGE WAS OVER $237,000,000, WHICH AMOUNTED TO NEARLY 74% OF THE COST OF ALL BENEFITS.

IN ADDITION, THE TRAVELERS IS AMONG THE LARGEST INSURANCE COMPANIES IN THE UNITED STATES. WE NOT ONLY SELL POLICIES TO INDIVIDUALS, BUT ALSO UNDERWRITE BENEFIT PLANS FOR ALL SIZES OF EMPLOYERS FROM INTERNATIONAL CORPORATIONS TO LOCAL SMALL BUSINESSES. OUR STANDARD PRACTICE IS TO COVER ALL ELIGIBLE EMPLOYEES OR MEMBERS OF A GROUP. THE ELIGIBLE PERSONS ARE TYPICALLY ALL FULL TIME EMPLOYEES WHO HAVE BEEN EMPLOYED FOR A MINIMUM PERIOD, SUCH AS THREE MONTHS, WITHOUT REGARD TO AGE, SEX OR SALARY LEVEL. BASED ON 1983 DATA, THE TRAVELERS PROVIDED 15,637,000 OF OUR CLIENTS' EMPLOYEES AND THEIR DEPENDENTS WITH MEDICAL INSURANCE, TOOK IN $4.6 BILLION IN PREMIUM AND EQUIVALENTS AND PAID OVER $4 BILLION IN CLAIMS. OUR LIFE INSURANCE POLICIES COVERED 4,663,000 PEOPLE, PREMIUM VOLUME WAS OVER $478 MILLION AND CLAIMS PAID WERE WORTH $433 MILLION.

THE TRAVELERS PENSION PROGRAMS COVERED OVER 1,000,000 RETIREES, PAYING OUT $1.4 BILLION IN BENEFITS WHILE TAKING IN $3.1 BILLION IN PREMIUMS. DISABILITY INSURANCE PLANS, INCLUDING WEEKLY INDEMNITY AND LONG-TERM DISABILITY BENEFITS, PROVIDED NEARLY 3 MILLION BENEFICIARIES WITH OVER $167 MILLION IN PAYMENTS. TOTAL DISABILITY PREMIUMS AMOUNTED TO $220 MILLION.

THESE ROLES AS BOTH A LARGE EMPLOYER AND A MAJOR INSURANCE COMPANY ENABLED US TO DRAW ON A LARGE BANK OF EXPERIENCE IN DEVELOPING OUR POSITION ON FRINGE BENEFITS. THE TRAVELERS SUPPORTS CONTINUATION OF THE EXISTING SYSTEM OF FRINGE BENEFIT TAXATION UNDER WHICH THE PRIVATE SECTOR HAS BEEN A VITAL SOURCE IN EFFECTIVELY PROVIDING BENEFITS. WITHOUT QUESTION, THE PROVISION OF LIFE, HEALTH, DISABILITY AND PENSION BENEFITS IS ESSENTIAL TO THE ECONOMIC WELFARE OF THE EMPLOYEES, DEPENDENTS AND RETIRED PERSONS COVERED.

EMPLOYMENT-RELATED BENEFITS CAN BE TRACED BACK TO THEIR ORIGINS NEARLY A CENTURY AGO. A NUMBER OF PRIVATE EMPLOYERS AND SOME PUBLIC ENTITIES OFFERED PENSIONS AND OTHER BENEFITS BEFORE THE TURN OF THE CENTURY. THE CREATION AND GROWTH OF THESE BENEFITS NATURALLY EVOLVED AS THE WORKFORCE BECAME INCREASINGLY INDUSTRIALIZED AND SPECIALIZED. THIS EVOLUTION CANNOT BE ATTRIBUTED CHIEFLY TO TAX ADVANTAGES OFFERED TO EMPLOYERS OR EMPLOYEES, SINCE MUCH OF THE EARLY DEVELOPMENT OCCURRED WHEN THERE WAS NO PERSONAL INCOME TAX OR WHEN IT APPLIED TO A VERY FEW AT LOW MARGINAL RATES. INSTEAD, EMPLOYEE BENEFIT PLANS DEVELOPED AS A MEANS OF PROVIDING ECONOMIC SECURITY FOR EMPLOYEES AND THEIR DEPENDENTS IN THE EVENT OF PREMATURE DEATH, DISABILITY, ILLNESS OR UNEMPLOYMENT.

THE BENEFIT PLAN MECHANISM CONTINUES TO FLOURISH EVEN MORE UNDER CURRENT TAX POLICIES SINCE IT STILL PROVIDES THE MOST EFFICIENT AND ECONOMICAL MEANS TO OFFER EMPLOYEES FINANCIAL SECURITY. THE INFORMAL PARTNERSHIP BETWEEN THE GOVERNMENT, EMPLOYEES AND EMPLOYERS THAT NOW EXISTS HAS BEEN EXTRAORDINARILY SUCCESSFUL IN DEVELOPING PROGRAMS THAT ARE EFFECTIVE, RESPONSIVE AND LEAST COSTLY TO A HUGE PORTION OF THE POPULATION.

THE GREAT MAJORITY OF FRINGE BENEFITS, SUCH AS PENSIONS, MEDICAL, HOSPITAL AND DISABILITY PAYMENTS, SERVE IMPORTANT SOCIETAL PURPOSES. THESE BENEFITS SUPPLEMENT SOCIAL SECURITY AND WELFARE PAYMENTS, RELIEVING THE BURDEN ON THESE PUBLIC SYSTEMS TO A SIGNIFICANT DEGREE. IN ADDITION, A NUMBER OF FORCES HAVE TRADITIONALLY WORKED TO RESTRICT THE GROWTH OF SAVINGS. INSTALLMENT CREDIT, ADVERTISING, PERIODIC HIGH LEVELS OF TAX RATES AND INFLATION HAVE ENCOURAGED CURRENT CONSUMPTION OF GOODS RATHER THAN ACCUMULATION OF SAVINGS FOR RETIREMENT. BENEFIT PLANS WITHIN ORGANIZATIONS, SUCH AS THE TRAVELERS, OFFER EMPLOYEES THE EFFECTIVENESS AND EASE OF THE GROUP SAVINGS APPROACH IN PROVIDING FINANCIAL SECURITY FOR RETIREMENT. FURTHERMORE, AS HEALTH CARE COSTS HAVE BEEN SKYROCKETING, THE PRIVATE SECTOR HAS BEEN ACTIVELY WORKING TO KEEP THESE COSTS AFFORDABLE FOR EVERYONE INVOLVED. BUSINESSES HAVE BEEN ENCOURAGING GREATER EMPLOYEE INVOLVEMENT IN HOLDING COSTS DOWN BY INSTITUTING PREVENTIVE HEALTH PROGRAMS AND REQUIRING PAYMENT OF DEDUCTIBLES.

IN ADDITION, THE GROUP INSURANCE MECHANISM IS OF IMMEASURABLE VALUE TO THE MANY EMPLOYEES WHO, FOR VARIOUS REASONS, WOULD BE UNABLE TO

OBTAIN INDIVIDUAL LIFE OR HEALTH POLICIES. THROUGH THE USE OF GROUP, RATHER THAN INDIVIDUAL UNDERWRITING, THESE PEOPLE BECOME ELIGIBLE FOR INSURANCE COVERAGE. IN THE EVENT OF A FINANCIAL LOSS, THE EMPLOYEES TURN TO THEIR FRINGE BENEFIT PLAN RATHER THAN TO THE GOVERNMENT FOR PUBLIC ASSISTANCE.

THE VAST MAJORITY OF EMPLOYERS DO NOT ABUSE THE EMPLOYEE BENEFIT MECHANISM. IN ONLY A FEW INSTANCES HAVE EMPLOYERS UNFAIRLY USED THE TAX LAWS TO BENEFIT THEMSELVES IN A DISPROPORTIONATE MANNER. CONGRESS CAN EASILY REMEDY ANY IMPROPER PRACTICES WITHOUT DESTROYING THE MAJORITY OF FAIR AND HEALTHY BENEFIT PROGRAMS.

UNFORTUNATELY, IT APPEARS THAT SOME MEMBERS OF CONGRESS ARE LABORING UNDER THE MISCONCEPTION THAT BENEFIT PLANS ARE DESIGNED TO ADD TO THE INCOMES OF THE RICH AND THEREFORE COST THE TREASURY SUBSTANTIAL LOSSES OF REVENUE. HOWEVER, NOTHING COULD BE FURTHER FROM THE TRUTH. GROUP HEALTH BENEFITS SUPPLY, IN GENERAL, THE SAME AMOUNT OF COVERAGE FOR EMPLOYEES OF LOW, MIDDLE AND HIGH INCOMES. IN FACT, OUR EXPERIENCE AT THE TRAVELERS DEMONSTRATES THIS POINT. OVER 27,000 OF OUR 30,000 EMPLOYEES PARTICIPATE IN THE TRAVELERS CONTRIBUTORY GROUP LIFE AND HEALTH PLAN. OF THESE 27,000 PLAN PARTICIPANTS, NEARLY 96% HAVE SALARIES BETWEEN $10,000 AND $50,000. THESE MIDDLE AND LOWER INCOME EMPLOYEES COMPRISE THE VAST MAJORITY OF THE PLAN'S BENEFICIARIES AND ARE RECEIVING THE SAME BENEFITS AS THE SMALL PERCENTAGE OF EMPLOYEES WITH HIGHER INCOMES. IT SEEMS CLEAR THAT REDUCTION IN EXTENT AND USE OF BENEFIT PLANS CAUSED BY CHANGES IN TAX LAWS WOULD HAVE MORE OF AN ADVERSE IMPACT ON LOWER INCOME EMPLOYEES THAN ON THOSE WITH HIGHER INCOMES.

39-707 O - 85 - 89

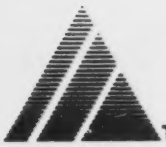
THE TRAVELERS BENEFITS PLANS ARE APPLIED EQUALLY AND BENEFIT ALL EMPLOYEES. LIKE THE GROUP INSURANCE PLAN, 96% OF THE EMPLOYEES PARTICIPATING IN OUR RETIREMENT PLAN AND SAVINGS AND INVESTMENT PLAN HAVE SALARIES BETWEEN $10,000 AND $50,000. IN ORDER TO MAKE CERTAIN THAT OUR RETIREES CAN MAINTAIN THEIR STANDARD OF LIVING, THE TRAVELERS RETIREMENT PLAN CONTAINS A COST-OF-LIVING ADJUSTMENT. EACH RETIREE WHO HAS BEEN RETIRED FOR ONE CALENDAR YEAR WILL RECEIVE A COST-OF-LIVING ADJUSTMENT TO AN ANNUAL MAXIMUM OF 3% BASED ON THE BUREAU OF LABOR STATISTICS CONSUMER PRICE INDEX. IN 1980 ALL OF OUR RETIREES RECEIVED AN EXTRA ECONOMIC ADJUSTMENT OF 2% PER CALENDAR YEAR OF RETIREMENT.

INSTITUTING A TAX ON EMPLOYEE BENEFITS WOULD WORK SEVERE CONSEQUENCES ON ALL OF THE PARTIES INVOLVED. FIRST, EMPLOYERS ARE NOW ABLE TO PURCHASE INSURANCE COVERAGE AT BETTER RATES THAN EMPLOYEES COULD BUY ON AN INDIVIDUAL BASIS. THIS FACTOR, ALONG WITH THE TAX INCENTIVES PROVIDED BY EXISTING LAWS, ALLOWS EMPLOYERS TO PROVIDE BENEFITS AT PRICES EMPLOYEES CAN AFFORD. INCREASING THE COST OF BENEFITS THROUGH CHANGES IN THE TAX LAW WOULD PROHIBIT EMPLOYERS FROM CONTINUING TO PROVIDE THE SAME LEVEL OF PROTECTION. SECOND, MAKING FRINGE BENEFITS TAXABLE INCOME TO EMPLOYEES WOULD REPRESENT A HARDSHIP FOR THEM, PARTICULARLY THOSE IN MIDDLE AND LOWER INCOME BRACKETS. THOSE EMPLOYEES WHO CHOOSE TO STAY IN THE GROUP PLAN WOULD FACE HIGHER INSURANCE COSTS DUE TO THE TAXATION OF THEIR BENEFITS. IN ADDITION, EMPLOYEES REMAINING IN THE PLAN WOULD EVENTUALLY FACE HIGHER COSTS IN THE FORM OF RISING PREMIUMS AND DEDUCTIBLES AS THE GROUP INSURANCE PLAN IS WEAKENED BY ADVERSE SELECTION. ADVERSE SELECTION WOULD RESULT AS HEALTHY EMPLOYEES UNABLE TO MEET THEIR RISING INSURANCE EXPENSES DROP OUT OF THE PLAN.

THOSE EMPLOYEES WHO DO LEAVE THE GROUP PLAN WOULD FIND PRICES FOR INDIVIDUAL POLICIES EVEN MORE PROHIBITIVE THAN THEIR EMPLOYEE PLANS DUE TO THE LACK OF GROUP UNDERWRITING ADVANTAGES. FOR EXAMPLE, TRAVELERS COST PER EMPLOYEE FOR ALL BENEFITS DURING 1983 WAS $8,476. IF AN EMPLOYEE TRIED TO PURCHASE THIS COVERAGE ON AN INDIVIDUAL BASIS, THE COST WOULD BE SUBSTANTIALLY HIGHER SINCE THE ECONOMIES OF GROUP RATES WOULD BE LOST. FINALLY, THE GOVERNMENT WOULD BE PRESSURED TO INCREASE ITS RESPONSIBILITY TO PROVIDE ASSISTANCE THROUGH PUBLIC PROGRAMS. EMPLOYEES WHO DROP THEIR GROUP COVERAGE BECAUSE OF PROHIBITIVE COSTS OR BECAUSE THEY ARE HEALTHY AND DECIDE TO TAKE THE RISK THAT THEY WILL REMAIN HEALTHY COULD BECOME PUBLIC CHARGES. THE PRESSURES OF ADDITIONAL PEOPLE REQUIRING PUBLIC ASSISTANCE WOULD BE AN EXTRAORDINARY BURDEN ON THE GOVERNMENT. THE CONSEQUENCES OF THESE WELFARE PRESSURES ON THE GOVERNMENT COULD BE DISASTROUS, PARTICULARLY IN THE FACE OF FEDERAL AND STATE BUDGET DEFICITS AND THE FISCAL DIFFICULTIES PLAGUING MEDICARE, MEDICAID AND SOCIAL SECURITY. AT A TIME WHEN FEDERAL FUNDS ARE MOVING AWAY FROM SUPPORTING BENEFITS, IT DOES NOT MAKE SENSE TO DISCOURAGE RELIANCE ON PRIVATE SECTOR BENEFIT PLANS. INSTEAD, EFFORTS MUST BE CONCENTRATED ON INCENTIVES TO ENCOURAGE PRIVATE PLANS TO DEVELOP AND COVER AS MANY PEOPLE AS POSSIBLE.

THIS DISTINGUISHED SUBCOMMITTEE HAS BEEN PRESENTED WITH THE COMPLEX TASK OF RESOLVING A SERIOUS FEDERAL DEFICIT PROBLEM. IT IS OUR FIRM BELIEF THAT TAXING EMPLOYEE BENEFITS WOULD NOT RESOLVE THIS PROBLEM BUT WOULD ONLY CREATE NEW ONES. THE REPERCUSSIONS OF TAXING BENEFITS WOULD BE SO WIDE SPREAD THAT THE ISSUE DESERVES INTENSE REVIEW OVER AN EXTENDED PERIOD OF TIME RATHER THAN EXPERIMENTAL QUICK-FIX APPROACHES.

ONLY IN THIS WAY WILL A NATIONAL POLICY BE DEVELOPED TO CONTINUE TO PROVIDE SHORT AND LONG TERM ECONOMIC SECURITY TO EMPLOYEES AND THEIR FAMILIES. WHILE THE SYSTEM DOES CONTAIN SOME GAPS IN COVERAGE, IT CAN BE FINE-TUNED WITH MINOR ADJUSTMENTS. WE BELIEVE THAT THE EXTENT OF THE EMPLOYEE BENEFIT PLANS IN THE UNITED STATES IS A NATIONAL RESOURCE WHICH SHOULD BE NURTURED AND IMPROVED, INCLUDING CHANGES RESULTING FROM A COMPLETE REVIEW OF EXISTING LAWS. IT WOULD BE UNFORTUNATE, TO SAY THE LEAST, IF A FAIR, EFFECTIVE AND EFFICIENT SYSTEM OF PROVIDING BENEFITS FOR MILLIONS OF PEOPLE WERE TO BE ABRUPTLY DISMANTLED.



TRIAD ENERGY CORPORATION

July 26, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirksen Senate Office Building
Room SD-219
Washington, D. C. 20510

Dear Mr. DeArment:

Triad Energy Corporation would like to have enclosed statement (5 copies attached) included into the printed record of the hearings on Employee Fringe Benefits to be held on July 26, 27 and 30, 1984 by the Senate Finance Subcommittee on Taxation and Debt Management.

Very truly yours,

S. K. Bradshaw
President

STATEMENT FOR THE RECORD OF THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT

Hearing dates: July 26, 27, and 30, 1984

Subject: Taxation of Employee Benefits

Triad Energy Corporation furnishes to its employees a complete Employee Benefit Program at no cost to the employee and, therefore, would not want the present tax exempt status on employee benefits to be changed.

Our Benefit Program is non-discriminatory. All employees have the same benefits under our medical, dental and disability programs regardless of their salary, sex or age.

We also provide a Thrift Plan for our employees under which they may contribute 2%, 4% or 6% of their salary to the Plan. Triad will match $.50 for each $1.00 contributed by the employee under this Plan.

If the tax laws were changed and Triad was no longer able to provide these benefits, we think it would cause unnecessary hardships on our employees. Our employees would be forced to provide for their own medical, dental and disability coverage which in today's health care market would cost approximately $300 a month for family coverage and sixteen of our eighteen employees have family coverage.

Triad believes our Employee Benefit Program enables us to provide our employees and their families with the assurance that they will have economic security during an illness or if they are disabled. Also, our Thrift Plan will provide economic security for them when they retire.

Triad has developed an effective and efficient Employee Benefit Program which covers the needs of its employees. It is far superior to any government program which would replace it. It should not be systematically dismantled in the name of greater tax revenues. Employee needs are present and must be provided for. If private enterprise, such as Triad, is not encouraged to meet employee needs, government must. And we believe the ultimate price to our nation will be greater.

S. K. Bradshaw, President
Triad Energy Corporation

THE TRINITY BAPTIST CHURCH
OF SAN ANTONIO

DR. BUCKNER FANNING
Pastor

J. W. FORTNER
Business Administrator

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Dirksen Senate Office Build., Room SD-219
Washington, D. C. 20510

RE: HEARING DATES JULY 26, 27, & 30, 1984
TAXATION OF EMPLOYEE BENEFITS

Dear Mr. DeArment:

The purpose of this letter is in order to be heard and to become a part of the written record in support of leaving employee benefits out of the taxation structure. For over 50 full-time employees Trinity Baptist Church furnishes a benefit program which includes all levels of personnel. It is not restricted principally to the higher paid people. The benefits are not restricted to men only.

Our employees would suffer considerable economic impact if employer-sponsored benefits did not exist or were taken away.

I believe that employee benefits are essential to the overall economic security of our workers and their dependents.

The program which we have as an employer which is offered to all full time employees are as follows:

1. Major medical benefits which are carried through a private company and which are available both to the employee and their dependents. To encourage the insurance of the total family, we the employer have for over 15 years paid the full premium for the employee.
2. As an employer, we also furnish for our employees a life insurance program which they pay half of the

premium and the employer pays the remainder.

3. Also, we as the employer insure, through a private insurance company, our employees for long term disability benefits.
4. Rather than having a pension plan, we through a denominational annuity plan, have set up an annuity program. Employees are required to pay a percentage of their income after a stated period of employment into the annuity program and the employer matches this with a like percentage. This full amount is vested for the employee after five years employment. It is their responsibility and full option to determine usage and how to receive it at retirement age.

It is my opinion that private enterprise and a number of denominations have built an effective and efficient arrangement covering the needs of employees through an employee benefit system. This system, in my view, is far superior to any that a government program could plan or design as a replacement for it. This system of employee benefits should not be systematically dismantled in the name of a greater tax revenue. The employee needs are very real and they must be met by a cooperative effort between the employee and the employer. If private enterprise is not continually encouraged to meet the needs of an employee, government will find itself doing so. We believe the ultimate price to our nation will be far greater if government tries to meet the needs than through encouraging private enterprise in this matter of employee benefits.

Thank you for adding this to your file.

Most sincerely,

J. W. Fortner

JWF/ls

TRUST FUND COMPUTER
632 W. GRAND AVENUE
OAKLAND, CALIFORNIA 94612
(415) 465-7712 - (213) 681-3282

July 24, 1984

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Building
Washington, DC 20510

Re: Fringe Benefit Taxation
Hearing Dates July 26, 27 and 30 of 1984

As a contributing employer to a multiemployer Health and Welfare Trust, I would very much appreciate the Committee's consideration of my opinions with regard to taxation of fringe benefits.

1) to take away or substantially reduce existing tax incentives would of necessity oblige this corporation to discontinue participation in any plan of fringe benefits for our employees.

the financial impact to this Corporation would be devastating---- it is safe to assume that a like adverse effect would be imposed upon tens of thousands of other small and medium size corporations.

2) equally, if not more devastating, would be the hardships placed upon millions of workers who with after-tax dollars will be forced to seek and to medically qualify for individual policies of insurance.

It appears to me that the proponents for the removal/restrictions of fringe benefit tax incentives have been "blinded" by $$$ signs and have not completely examined the dire consequences their proposals would wreak upon the populace and the economy.

Yours truly,

Daniel F. Sheehan
President

DFS:fs

TWIN CITY ADMINISTRATORS, INC.
SUITE 915
PARK PLACE WEST OFFICE CENTER
6465 WAYZATA BOULEVARD
ST. LOUIS PARK, MINNESOTA 55426
(612) 545-1101

August 3, 1984

Roderick DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington D.C. 20510

Dear Mr. DeArment,

This letter is in reference to the finance subcommittee on taxation and debt management who have set hearings on fringe benefits.

I would just like to take a minute to share with you my exposure to the private employee benefit network that I have interacted with both from a personnel executive working for a large corporation, and as a private business man owning and operating a third party administrative firm. Basically it has been my experience that the offering of fringe benefits through the private sector has at times been subject to inflationary increases and confusing industrial adjustments due to state and federal regulation, however it represents the most feasible method of offering employee benefits available today. When you consider the cost of social security and the cost of implementing ERISA one could well imagine what a publicly offered employee benefit program might cost. In addition with the wide variety of state and federal regulations that have inundated the private sector fringe benefit programs over the past ten years it is hard to believe that governmental bodies and agencies continue to consider further ways of restricting and taxing very heavily needed and manditory offering such as employee benefits.

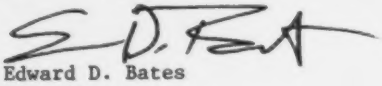
Employees today generally have a selection of private sector benefits and often time public programs such as HMOs. A vast majority still interact with the private sector and receive millions of dollars of benefits annually through the insurance and self insured programs offered throughout this nation. The cost of provider services has increased over the years substantially, however with fewer regulatory requirements on these programs the impact would have been substantially less.

For our congress to consider further restriction or burdens in this area maybe catastrophic. Without the private sector interaction the potential cost of offering these benefits through the public sector could be catastrophic.

I strongly urge you through this letter and whatever action I might take to assist you decide now and hopefully forever that the employee fringe benefit program offered through the private sector of our economy is the best alternative available not only to those benefiting through payment of their providers, but our tax payers. To further emphasize my concern in this area I have forwarede this letter to our senators in Minnesota and through this effort am urging their attendance to the hearings which will be held on July 26, 27, & 30, which will include testimony from our professional association, SPBA.

If you or any of your staff would like to personally contact me for further clarification of my letter please feel free to do that at your convenience.

Very truly yours,



Edward D. Bates
President

EDB/dmd

UNIFOUR BUSINESS/MEDICAL COALITION, INC.

P. O. Box 3584
Hickory, N. C. 28603
Tel. (704) 324-9716

August 13, 1984

Mr. Roderick A. DeArment
Chief Consel
Committee on Finance
Dirksen Senate Office Building, Room SD-219
Washington, DC 20510

Dear Mr. DeArment,

The Unifour Business/Medical Coalition is a non-profit organization whose members include 48 of the major employers in this four county area of western North Carolina. The counties included are Alexander, Burke, Caldwell and Catawba. Our purpose is to assist our members to control their health care expenditures. My comments relate to the hearings on a taxation of employee benefits held between July 26 and 30, 1984.

In my role as the Coalition Director I have had the opportunity to discuss health care benefits with each of our members. I believe that the existing tax incentives do provide some encouragement for employers to include health care insurance as a fringe benefit.

The results of an assessment of the health care insurance plans of our members indicates that these benefits are essential to the economic health of the employees of our members. I found that the health care plans were offered equally to all employees of our member companies. I did not see a different plan for executives, women or minorities. Many employees would not have coverage, were it not for the employer. As seen in the example of Medicare/Medicaid the dollar cost to society for governement to provide health care services will substantially exceed that of business providing the same coverage.

While financing our health care system is costly, the removal of the existing tax incentives will possibly shift the dollars from the employer to the employee. Because the employee may not be willing to "buy" health care insurance, the federal government will become more involved in providing health care services. Our system needs help, but not in the form of government. Business is aware and concerned about these dollars and is working to solve the issues related to providing quality health care coverage as part of the fringe benefit package.

Thank you for allowing me to comment.

Yours Truly,

Charles N. Burger
Executive Director

Submitted as Part of the
Record of the Hearing on Employee
Fringe Benefits held on July 26,
27, and 30 by the United States
Finance Committee, Subcommittee
on Taxation and Debt Management

By: David L. Thomas
United Carolina Bank

This statement is intended to address some serious concerns that exist in my mind concerning the elimination of the tax incentives which are one of the supports of the private employee benefit plan system (hereinafter referred to as "the system"). The information I have received indicates the committee believes that one or more of the following circumstances exists:

1. The system serves no useful social or economic purpose.

2. The system primarily benefits highly paid employees.

3. The system would survive absent tax incentives.

4. The system should be eliminated in favor of IRAs and IRA type vehicles.

5. The system could be eliminated without any adverse impact on the Social Security System.

6. The system has no "grass roots" support.

I would like to address each of these points and respectfully point-out why I think the committee is misinformed on them.

The private employee benefit plan system does serve a useful social and economic purpose. There are millions of Americans who are retired to date whose livelihood comes from funds provided by private employee benefit plans. These payments to retirees are used by them for their support and their expenditures are reinvested into the economy for goods and services. Those funds keep the retirees from depending on federal or state funded welfare and benefit funds. The funds in the employee benefit plans are invested in all type of investments. The equity investments that are made by the plans help support the stock market; it helps give corporations a source from which to raise equity and debt capital; it provides funds for insures of debt obligations such as the Federal Government; it invests funds in commercial and residential mortgages giving support to the construction and housing industry; it provides avenues for developing

new and innovative financing for corporation which could not be sold to a fund that had income tax consequences, i.e. zero coupon bonds.

The system does not benefit the "highly paid employees". Congress passed a law called the Employee Retirement Income Securities Act (ERISA) of 1974 which totally reformed the private employee benefit system and was designed to eliminate abuses. That law, because of its enormous complexity, caused a reduction in private plans. The employer for which I work has a pension plan which requires no contribution on behalf of the employee. Of the 1500 employees who work, 1300 are covered under the plan. I dare say that this covers more than the "highly paid employee" of the organization. In fact, ERISA prohibits covering just the "highly paid employees".

The statement that the system would survive without the tax incentives is dubious and highly questionable. Clearly, the system might not be completely eliminated. However, elimination of the tax incentives would have a severe impact on a corporation willingness too fund it, employees willingness to make contributions to it and the social and economic support it would give at retirement. A greater dependency would exist on self-accumulation outside the plan and government funded programs.

If the system were eliminated in favor of IRAs and IRA type vehicles it is unclear as to whether the committee would propose to eliminate the tax incentives from those plans and/or whether the limits would remain the same. Clearly a major incentive of creating an IRA is the tax incentive that exists for them. If the tax incentives were eliminated, an individual would have no reason to make contributions to an IRA. They would disappear as a retirement medium. If the tax incentives remained and the limits remained the same or were increased, I don't believe the increase in usage would be the same. In the majority of employee benefit plans the contribution is made by the employer not the employee. If the employee were left to make his own contribution, the funds in the plans would severely diminish. Therefore, the funds available at retirement would be less and an adverse social and economic impact would occur.

I do not see the relationship between the social security system and the private employee benefit system. Plans, unless they are integrated with social security, don't have a relationship with social security. The integration or non-integration with social security doesn't increase or decrease the social security payment at all. The impact of the elimination of the system would be on other federal and state welfare benefit plans because there would be less funds available at retirement.

There are millions of "middle-age" Americans, who truly feel that they will never receive any payments from the Social Security System. They view it to be so actuarially unsound that it cannot support them at retirement. The private employee benefit system is the only mechanism by which they feel they will be able to retire and

survive with their own resources. To eliminate this only retirement vehicle they have for such capricious and unreasonable reasons as outlined above would generate a "grass roots" voter rebellion unparalled . I think support for the private employee benefit plan system is based in and supported by the people.

In summation, I believe that to eliminate the system would be to impose injustice to those who participate in it and have severe economic impact on the participants and retirees. It would also have an economic impact on the investor community and economy as a whole. If the committee was to do anything, it should enhance the rules so as to make it easier for more employers to create private plans for their employees, to help them build a private retirement program and share in the profits the employees help create.

39-707 O - 85 - 90

C.L.A. Emblem

UNITED CONSTRUCTION WORKERS
Local No. 84

All Trades Represented

Affiliated with
CHRISTIAN LABOR ASSOCIATION, U.S.A.
412 LAKELAND DRIVE N.E.
PHONE 612/235-4874 — P.O. BOX 738
WILLMAR, MINNESOTA 56201-0738

August 2, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Enclosed please find the written statements of three of our Fringe Benefit Programs, the CLA Health and Welfare Fund 84C, the CLA Health and Welfare Dental Plan and the United Construction Workers, Local #84 Pension Plan, in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26, 27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

Doug Reese
CLA National Representative

DR/llb

Enclosures

STATEMENT OF CLA HEALTH AND WELFARE FUND 84C
IN CONNECTION WITH THE HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

The Trustees of the CLA Health and Welfare Fund 84C believe that it is important to meet the basic needs of our employees for financial security. Accordingly, the following benefit package is offered to all insured employees through the fund: We provide full family coverage for all members wishing to participate in the program and contributions for these benefits are paid for in the form of a fringe benefit by the employers. This same coverage is extended to all employees whether they are a beginning Apprentice making minimal wages through the experienced Jounryeman making maximum wages and fringe benefits. The benefits provided under our Health and Welfare Plan are as follows: A life insurance policy for each employee of $10,000, for said employees spouse $2,000 and for each dependent child $1,000. Hospital benefits that are provided for Inpatient: daily room and board is paid in full for a semi-private room. Intensive care is also paid in full for a semi-private room to a maximum of 70 days. All other eligible charges are paid in full excluding television and phone charges. The maximum paid for ambulance is $66. Outpatient benefits that are paid in full are minor surgery and emergency treatment within 48 hours of an accident. In-clinic charges are handled as follows: minor surgery is paid in full and emergency treatment within 48 hours of an accident is paid in full. Maternity benefits are paid as follows: semi-private room is paid in full and hospital miscellaneous charges for both the mother and the baby are paid in full. All pre-natal care in the clinic is subject to the deductible. X-ray and lab charges in the clinic are paid in full and the first $220 charged for the delivery fee is paid in full and the unpaid balance is subject to the deductible. If a C-section is involved, the benefits are higher. A sterilization benefit is included with a maximum of $200. In-hospital doctor visits are paid at the

rate of $9.00 for one visit per day. Outpatient x-ray and lab work is paid in full. The major medical benefit has a $100 deductible per person per year to a maximum of $300 per year for any family. Any charges beyond the $100 deductible are picked up at 80% by the health and welfare fund to a maximum of $250,000. This is merely a summary of the health protection plan provided for Local #84 membership and all benefit plans are strictly governed by the master plan document.

The collective bargaining agreement under which the welfare fund operates provides benefits rather than additional cash wages. Benefits are considered to be essential to the economic welfare of our insured employees. As Trustees of a welfare fund, we are in a position to provide insurance coverage at a better rate than could the contributing employers on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits at a price we and the contributing employers can afford. Increasing the cost of benefits through changes in the tax law will mean that the same level of protection in the future may not be provided in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we must pay and, in turn collect from the contributing employers, we are vitally interested in cost containment. The Health and Welfare Trustees are continually striving to keep premium costs at a minimum and have, therefore, developed this program that is currently self-insured which has proven to be a very successful program to the benefit of both employer and employee.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers and unions to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

UNITED TECHNOLOGIES

United Technologies Building
Hartford, Connecticut 06101
203/728-7000

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Senate Finance Committee Fringe Benefit Hearings

Dear Mr. DeArment:

We are pleased to have the opportunity to submit written testimony for the July 26, 27 and 30 Fringe Benefits hearings.

United Technologies Corporation sponsors 50 pension plans in the United States which cover over 100,000 employees and 40,000 retired members. The trust fund for these plans has grown to $3.5 billion and provides annual benefit payments of $160 million.

UTC also sponsors a number of savings plans for our employees. Assets of these plans have grown rapidly since inception six years ago. At the beginning of 1984 assets exceeded $500 million.

We maintain major programs of life insurance, medical, dental and disability coverage for our employees. Each year these programs provide substantial financial help to our employees. Our plans pay claims of over $300 million each year.

Following minimal eligibility requirements, these programs are provided to our employees on a nondiscriminatory basis. For the most part the company pays the entire cost of the program.

We believe there are several positive considerations for maintaining the present system of privately-sponsored employee benefit plans:

- The sponsoring company is best able to design benefit plans which will attract, retain and motivate employees for the company's particular business and location.

- Without the substantial benefits commitment of UTC and the vast majority of other companies across the country, the financial security of U.S. workers would be severely impaired.

- The Federal and State governments cannot be expected to replace the existing financial security in any way approaching the current efficiency of private industry.

- Benefit programs such as those sponsored by UTC are long-term in nature and would not be successful if they were designed and administered in an environment of Washington politics.

UNITED TECHNOLOGIES CORPORATION

- The current system of deferring taxes on company contributions and investment income of retirement plans until retirement is a positive and appropriate way to maintain the health and encourage the growth of private employee benefit plans.

In conclusion, we believe that privately-sponsored employee benefit programs are an essential part of the free enterprise system. Employee benefit plans do not absorb any federal funding and need only to maintain their current tax status. We would greatly appreciate a period of time with no new federal legislation regarding benefit plans so that we might avoid the need to amend our plans annually and be able to concentrate on more efficiently and effectively administering our employee benefit programs.

Again, thank you for hearing our concerns and recommendations. I will be happy to further discuss the subject with you at your convenience.

Sincerely,

Keith J. Goodell

Keith J. Goodell
Manager -
Actuarial Services

KJG:cd

U

Ronald T. Ostan
Manager
Corporate Service Group

THE UNIVERSAL COMPANIES, INC.
2801 EAST BELTLINE, N.E.
GRAND RAPIDS, MICHIGAN 49505
TELEPHONE 616/364-6161

Universal Forest Products, Inc.
A Nationwide network of building material distribution centers, manufacturing facilities, and wood treatment plants serving the housing, commercial, and industrial markets.

MANUFACTURING & DISTRIBUTION CENTERS
Alabama Component Products, Guin, AL
Carolina Forest Products, E. Spencer, NC
Florida Component Products, Auburndale, FL
Georgia Forest Products, Moultrie, GA
Kansas Forest Products, Newton, KS
Lumber Specialties, Grunger, IN
New England Forest Products, Reichenbach, MA
Pennsylvania Forest Products, Gordon, PA
Texas Forest Products, Grandview, TX
Wisconsin Forest Products, Warrens, WI

WOOD TREATMENT FACILITIES
Golden Bell Wood Preserving, Auburndale, FL
Golden Bell Wood Preserving, Union City, GA
Great Lakes Treated Products, Gordon, PA
Great Lakes Treated Products, Grunger, IN
New England Forest Products, Reichenbach, MA

Universal Restaurants, Inc.
A Multi unit group of food service establishments with varied atmospheres and menus dedicated to satisfying our guests and to continued growth for our employees.

FAMILY RESTAURANTS
Holland, Michigan
Lansing, Michigan
Kalamazoo, Michigan
Okemos, Michigan
Jackson, Michigan
Lansing, Michigan
Muskegon, Michigan
Portage, Michigan
Lancaster, Pennsylvania
Mechanicsburg, Pennsylvania
Harrisburg, Pennsylvania
Wyomissing, Pennsylvania
Battle Creek, Michigan
York, Pennsylvania

SPECIALTY RESTAURANTS
Pietro's, Grand Rapids, MI
Pietro's Back Door Pizzeria, Grand Rapids, MI
Tootsie Van Kelly's, Grand Rapids, MI
Great Lakes Shipping Co., Ann Arbor, MI

Universal Properties, Inc.
The development and management of the real estate trust of the Universal Companies.

July 26, 1984

The Honorable Robert Dole
Senate Hart Building
Room 141
Washington, D.C. 20510

Dear Senator Dole:

I am writing to you in your capacity as a member of the Subcommittee on taxation and Debt Management. You are currently conducting hearings on tax policy issues surrounding fringe benefits. As a former trust banker who finds himself in a privately owned business environment, I understand that the most important ingredient to continue our country's economic revival is the deminishment of the large government deficits we currently experience and which are forecast to increase. The responsibility for the health and welfare of 2200 employees is important to me. I have watched our company health care costs rise to an estimated one million dollars this year. Over the last forty years, employers in the country have been responsible for a tremendous increase in the personal security enjoyed by American workers and their dependents. Voluntarily created, employer-sponsored life, health and disability insurance, pension plans and other benefits cover the vast majority of employees. These programs have been encouraged by favorable federal tax treatment and have in turn saved the federal government substantial sums which would otherwise have been necessary to fund and operate government welfare programs.

A number of proposals to reduce the favorable tax treatment of employee benefits were considered in the recent tax conference or are on the horizon. They cover a wide range of tax preferences, including, for example, restrictions on Voluntary Employee Benefit Associations and cafeteria plans; a cap on the exclusion of employee contributionts to group health insurance plans in particular or on all employer-sponsored benefits in general; taxation of employer-funded educational assistance; imposition of the Social Security tax onall non-retirement benefit plans; more restrictive limits on pension benefits; prohibition of IRA deposits for employees who are vested in their employer's pension plan; and a variety of flat tax proposals that would eliminate the exclusion of benefits from employee income.

Employee benefit plans are the most efficient and cost-effective way the market has devised for delivering economic security to employees. Pension, life-insurance, disability and health plans benefit employees at all wage and salary levels, not just the highly compensated top executives. Preferential tax treatment for those plans has encouraged their growth and is a wise investment in the future economic security of the nation. If tax policy ceased to encourage employee benefits, additional strain would inevitably be placed on public institutions and programs ranging from community hospitals through the Social Security retirement and disability income system. Congressional tax policy should continue to foster employee benefits, not regard them as simply an untapped source of revenue.

The bottom line is simple and logical, the quest for a cure for the budget deficit is admirable but the consequences of this experiment could likely be "pneumonic" and end up costing the government, business and the employee more in the long run. I watched many businesses curtail or fold their pension plans after ERISA was enacted and prefer not to witness a repetition of this action relative to these fringe benefits being examined as a possible source of revenue.

As a longtime active republican, financially supportive and active in 19 political campaigns as a worker, this is the first letter I've written to state my concern. I thank you for your consideration.

Respectfully,

Ronald T. Ostan

RTO/rsj

STATEMENT OF VAN KAMPEN MERRITT INC. IN CONNECTION WITH HEARINGS
OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27, and 30, 1984

We at Van Kampen Merritt Inc. believe that it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, we provide an excellent benefit package to all of our employees: (See attached summary). These benefits are provided to all 185 full-time employees at no cost to them. Our 185 employees include 93 women and minorities and 140 are non-management employees.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be essential to the economic welfare of our employees. We are in a position to purchase insurance coverage at a better rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law allow us to provide valuable benefits through changes in the tax law will mean that we will not be able to provide the same level of protection in the future.

We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we pay, we are vitally interested in cost containment. We have instituted an education program called "Taking Care" that is designed to improve the health of our employees and produce a more cost conscious consumer of heath care services. We are constantly studying this problem and evaluating proposed solutions.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided to make known our views on the importance of employee benefits. We believe that encouraging employers to provide these benefits is consistent with the social policy of our nation and merits continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

SUMMARY OF BENEFITS

I. LIFE INSURANCE; ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE; LONG TERM DISABILITY INSURANCE FOR YOU ONLY.

A. Life Insurance

1. Amount of Insurance - 2 times your basic annual salary or wage with a minimum amount of $10,000 and a maximum amount of $200,000.
2. An additional 5 times your basic annual salary or wage with a maximum of $500,000 without a medical exam.

B. Accidental Death and Dismemberment Insurance

1. Benefit Amount - equal to amount of your Life Insurance.

C. Changes in Amounts of Insurance

1. Change in amounts of insurance due to change in your salary or wage will become effective on the 1st day of the month following the date your salary or wage is changed except that -
   a. If you are away from work due to disability on the date an increase in amounts of insurance would become effective, it will be postponed until you return to active full-time work.
   b. No increase in Benefit Amount of Accidental Death and Dismemberment Insurance will increase the amount to be paid for injuries sustained in an accident which occurred before date of increase.
   c. No decrease in amount of Life Insurance or Benefit Amount of Accidental Death and Dismemberment Insurance will be made if your salary or wage decreases.

D. Reduction in Amount of Life Insurance and Dismemberment Insurance

1. Your Life Insurance and Accidental Death and Dismemberment Insurance will be reduced on your 65th birthday to 65% of the amount you had on the day before age 65.

E. Long Term Disability Insurance

1. Goes into effect after 90 days of absence from the job for the same illness or injury.
2. Maximum Benefit - 60% of salary with a maximum of $10,000 per month.

II. HEALTH INSURANCE FOR YOU AND EACH OF YOUR DEPENDENTS.

	Maximum Amount
A. Hospital Expense Benefits	
1. Room and Board per day	
a. Private Accommodations - Hospital's regular semi-private rate	
b. All other accommodations - Full Amt.	
2. Maximum benefit period - 120 days.	
3. Miscellaneous Fees	Full Amount
4. Out Patient Expense	Full Amount
B. Ambulatory Surgical Center Expense Benefits	Full Amount
C. Surgical Procedures Expense Benefits	Reasonable Charge
D. Radiation Therapy Expense Benefits	Reasonable Charge

	Maximum Amount
E. Benefits for Expense of Physician's Hospital visits	Reasonable Charge
1. Maximum benefit Period - 120 days	
F. Diagnostic Procedures Expense Benefits	Reasonable Charge
G. Supplemental Accident Expense Benefits	$500
H. Dental Care Expense Benefits	
1. Non-Orthodontic	
a. Applicable Perountage	
i. as to covered dental charges for diagnostic oral examinations, cleaning and scaling of teeth, x-rays, fluoride applications, space maintainers and emergency treatments for relief of dental pain - 100%	
ii. as to covered dental charges for crowns, fixed bridgework, inlays gold fillings, and full or partial dentures, other than charges incurred for repairs or additions to existing dentures - 50%	
iii. as to all other covered dental charges - 85%	
b. Cash Deductable	
i. as to covered dental charges for diagnostic oral examinations, cleaning and scaling of teeth, x-rays, fluoride applications, space maintainers and emergency treatment for relief of dental pain - none	
ii. applicable to all other covered dental charges - $50	
c. Maximum Amount per calendar year - $1,000	
I. Orthodontics	
a. Applicable Percentage - 50%	
b. Deductible Amount - $50	
c. Maximum Amount per lifetime - $1,000	

	Maximum Amount
J. Major Medical Expense Benefits	
1. Cash Deductible - a. per person - $100 b. per family - $300	Unlimited

The above benefits will be modified when you become a Retired Employee as described in the provision captioned " Benefits for Retired Employees" and will be further modified when you or your Dependent become a Person Eligible under Medicare as described in the "Additional Provision as a Consequence of Medicare".

IMPORTANT NOTICE ABOUT MEDICARE FROM YOUR EMPLOYER

This Plan does not provide benefits for expenses for which coverage is or could have been available under Medicare. Benefits that are or could have been available under Medicare will be deducted from the amounts payable under the Plan for any Employee or Dependent who is eligible under Medicare, regardless of whether that person has enrolled for Medicare.
Failure of any covered family member to enroll for both Medicare Parts A and B will result in a substantial increase in the expenses not covered by the Plan. These uncovered expenses could be large amounts of money.
See the Medicare provision for what happens when you or your Dependent becomes eligible for Medicare.

IV. VACATION

A. During the first four years vacation is earned at the rate of one day for every 24 days worked. (2 weeks)

B. During the fifth through ninth years vacation is earned at the rate of one day for every 16 days worked. (3 weeks)

C. After the ninth year vacation is earned at the rate of one day for every 12 days worked. (4 weeks)

D. Assistant Vice Presidents will receive three weeks vacation until the end of their ninth year when they move to four weeks.

E. Vice Presidents and above will receive four weeks.

F. New employees must work six months to become eligible to use vacation days.

G. Vacation days must be used during the calendar year earned or forfeited unless management decisions require a carry-over into the next year.

H. Vacations of more than two weeks at one time require approval of the department head.

V. SICK LEAVE

A. Employees are allowed 10 sick days per calendar year.

B. Sick days may accumulate to a maximum of 90.

VAN KAMPEN MERRITT INC.
PROFIT SHARING PLAN SUMMARY

I. All employees will be considered "participants" and be 100% vested after meeting the eligibility requirements listed below.

A. Employee's hired on or after December 1, 1983 become participants as of the first day of the calendar month coincidental with or next following the completion of a 12 month period during which he has at least 1000 hours of employment.

B. Employee's hired on or before November 30, 1983 shall be participants in the plan as of the first November 30, December 1 or June 1 following a 3 month period of employment.

II. A company contribution, as determined by the Board of Directors, will be made to each "participant's" account at the end of the plan year. The contribution will be in proportion to salary earned.

III. "Participant" contributions

A. Salary conversion 401(K) Pre-tax contributions: A "participant" may elect to have his salary reduced by any whole dollar amount per pay period (minimum $10) and direct that his employer contribute such amounts to the profit sharing plan on his behalf.

1. The contributions will not be subject to federal or state taxes (except in Alabama, New Jersey, and Pennsylvania) but will be subject to Social Security taxes starting in 1984.

a. Residents of Pennsylvania 401(K) contributions
   i. pay state tax of 2.45% of gross salary
   ii. Philadelphia residents pay an additional city tax of 4.96% of gross salary
   iii. Non-residents of Philadelphia pay an additional city tax of 4.3125% of gross salary

b. Residents of New Jersey 401(K) contributions
   i. pay state tax of 2% of gross salary under $20,000
      2.5% of gross salary over $20,000
      3.5% of gross salary over $50,000
   ii. pay an additional non-resident Philadelphia city tax of 4.3125% of gross salary (may take a tax credit for the same amount on New Jersey tax return)

2. There are limitations on the amount employees can defer (limits listed below are totals of company contribution plus salary conversion contributions)

a. Not more than 25% of salary in any plan year
b. Not more than $30,000 in any plan year
c. The average percentage of pay deferred by the top one-third compensated employees is limited based on a

formula relating to the average percentage of pay deferred by the bottom two-thirds.

B. Voluntary, after tax, contributions: Employees may elect to make voluntary contributions to the plan through payroll deductions or by lump sum payments. The rules for payroll deductions will be the same as for 401(K) contributions. Total voluntary contributions during the plan year may not exceed 6% of W-2 pay earned during the plan year.

IV. The committee may provide for optional investment funds. Employees will have the option at the end of each quarter to allocate their accounts and future contributions amoung the optional funds.

V. Loans to participants may be approved by the committee up to the smaller of the participant's vested account balance on the limits permitted by law.

VI. Distributions shall normally be made within 90 days after the end of the plan quarter in which the employee terminates employment, unless the employee requests that the distribution be deferred to a later date, but not more than five years after the accounting date following terminstion of employment. Distributions prior to terminstion of employment may be made from a participant's after tax contribution account, but the committee may limit such withdrawals to one in any twelve month period.

V

1984 SEP 28 PM 2:07

COMMONWEALTH of VIRGINIA

JOHN G. CASTLES
MAJOR GENERAL
THE ADJUTANT GENERAL

Department of Military Affairs
Adjutant General's Office
501 E. Franklin Street

RICHMOND, VIRGINIA 23219

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman:

Application of IRS Ruling 83-3 will have an adverse affect on recruiting and retention in the National Guard. This comes at a time when our goverment is placing increased reliance on the Guard and Reserve for national defense.

Discouraging the retention of those trained people we now have in our force and the recruitment of those we need in it makes no sense in this environment.

The estimated pay loss if IRS Ruling 83-3 is applied is shown at enclosure 1.

Letters from soldiers on AGR tour as well as from technicians who are not presently affected by this ruling are attached.

Sincerely,

John G. Castles

John G. Castles
Major General, VaARNG
The Adjutant General

Enclosures

Enclosure #1

ESTIMATED PAY LOSS IF TAX DEDUCTIONS ARE DISALLOWED

ANNUAL AVERAGE

GRADE	NUMBER AFFECTED	DOLLAR VALUE LOST
0-06	2	$360
0-05	4	520
0-04	8	900
0-03	5	600
0-02	2	230
0-01	1	100
W-04	6	850
W-03	0	000
W-02	2	200
W-01	2	300
E-9	4	600
W-8	10	980
E-7	73	2,000
E-6	71	1,355
E-5	72	1,000
E-4	24	856
E-3	3	197
E-2	1	0

39-707 O - 85 - 91

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman:

As a technician and a member of the Virginia National Guard, I would like to go on record as being against the bill taxing the housing allowances on military members. I feel military personnel need all the incentives they presently have, and possibly more if the can get them. Their job is not easy, and the effectiveness of the job they do depends on their finiancial well being, among other things.

If I was offered an AGR tour and a job with a civilian employer in the same salary range, I'm sure I would think twice about taking the AGR tour considering the tax on the housing allowance and other allowances that may be taxed in the future.

Sincerely yours,

Patricia L. Hill

SP5 Patricia L. Hill
Technician, Military Pay Section
VaARNG

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
259 Senate Russell Building
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am opposed to the authorization bill IRS Ruling 83-3. When I first applied for an Active Guard Reserve position, the most appealing aspects were the benefits that the military provided. By cutting down on the benefits you make the military less appealing to my self and to others who may be interested in joining.

If this bill were to be implemented it would cause me to take a serious second look at my present military career. To take away the tax exempt housing allowance would also be detrimental to myself and my family. We have just purchased a home and are relying on the little extras that being in the military provide. Without these extras that we figured in when purchasing our home, we could not have afforded to buy at this time.

Being in the pay grade of E-4 is difficult enough in todays day and age. But, if my monthly take home pay is cut and my yearly taxable income is raised, I may be forced to look for employment elsewhere.

In closing, I think that the passing of IRS Ruling 83-3 would have a negative impact on the Active Guard Reserve program. I also believe that this bill could present future problems with meeting strength requirements in both the active and reserve components.

Richard R Carbonneau

RICHARD R. CARBONNEAU
SP4, VaARNG
Personnel Information Specialist

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman

I, SP4 Brooks, a member of the VaARANG would like to express my disagreement concerning the possiblity of applying Ruling 83-3 to military housing allowances. By taxing this previous tax-exempt allowance you are creating more of a financial burden on young servicemembers like myself who are trying to purchase a home. During this era of high inflation and high interest rates every little bit helps.

Another crucial concern is that you will be dampening the moral of dedicated servicemembers, who put in long hard hours to serve their country. I urged you for the sake of the VaARNG, my fellow servicemembers and myself to please do not tax the military housing allowance. Thank You!

In God We Trust,

James Orlando Brooks

JAMES ORLANDO BROOKS
SP4, Mil Pay Clerk

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman:

I have been requested to respond by correspondence to the Internal Revenue Service Ruling 83-3. As A member of the Active Guard/Reserve personnel of the Commonwealth of Virginia, I will freely respond to this request.

Although I do not currently own a home, I feel that Ruling 83-3 will deter my husband and I greatly from even considering to become homeowners. We are discussing buying our present abode, however with the passage of IRS 83-3 it would be impossible for my husband and I to purchase a home.

Each year that I have been an AGR employee, my income has been increased by percentage raises by Congressional action. By paying taxes on my BAQ and VHA, my yearly income would be reduce extensively by the amount of taxes assesed on my income.

In closing, I feel IRS Ruling 83-3 would effect the current strength of the National Guard, in all states, by forcing personnel to seek employment elsewhere. The incentive to work for the Guard and be a part of this country's defense would be lost to IRS Ruling 83-3.

Sincerely,

Debra J. Lawrence

DEBRA J. LAWRENCE
SP5, VaARNG
Accounting Technician

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman

I wish to take this opportunity to voice my opinion relative to the impact on military members should IRS Ruling 83-3 be passed by Congress. As a Sergeant (E5) on tour with the Virginia Army National Guard, this drop in my spendable income would have a far more reaching impact than at first visable. As a renter I do not enjoy the same tax benefits as those who own a home, therefore the offset enjoyed by the home owner should this action become law would be a complete loss of income in situations such as myself. This coupled with high interest rates, and inflation rates that far exceed the military annual cost of living increases makes even the possibility of ever owning my own home very dim indeed.

As of this writing my counterparts in the civilian sector bring home approximately 1 1/2 time my own salary making my retention in the service harder and harder with each cut in spendable income. At this rate the current surplus the military enjoys in its retention of highly trained senior personnel will fall back into the hard times of the late sixties and early seventies when retention was at an all time low.

Ladies and Gentlemen, I urge you to reconsider the positions you take concerning IRS Ruling 83-3. Weight the impact on the lower ranking individuals in the military today, and vote this ruling down before it can do any damage.

Victor W Bradley

VICTOR W. BRADLEY
SGT, VaARNG
Personnel Information Specialist

September 26, 1984

Honorable Bob Packwood
Chairman
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
United States Senate
259 Senate Russell Building
Washington, D.C. 20510

Dear Mr. Chairman:

This is the way I see the situation as a National Guard Technician on taxing the housing allowances. As a technician one day I might decide to go on a AGR Tour for whatever reason I might choose. For one thing the types of benefits I would receive would be number one on the list. Taxing one benefit, then pretty soon there will be a hearing on to see about taxing the other benefits, which would leave the serviceperson not anything to gain from an AGR Tour.

The way mortgage payments and rent cost are these days, some personnel might have to chose to move out of their homes or move out of the type of apartment and find other means of living.

AGR Tours is a stepping stone to whatever goal a personnel is trying to gain. It could be to get that home they have always wanted, to buy a new car, fix up their home, save for their children's future, etc. I don't think the committee have stopped to realize taxing the housing allowance will hurt the personnel check, but also will put a hurting on their famillies as well.

If this taxing the housing allowances comes into effect the AGR Tours will cease in the number of personnel. If this came into effect, I would not sigh up for a AGR Tour.

Regina T. Webb

SP4 Regina T. Webb
Record Section, VaARNG
Military Personnel Clerk

Vulcan Materials Company

P. O. BOX 7497 • BIRMINGHAM, ALABAMA 35253-0497

Submitted as Part of the Record of the
Hearing on Employee Fringe Benefits held
on July 26, 27 and 30 by the United States
Senate Finance Committee, Subcommittee
on Taxation and Debt Management

by
Vulcan Materials Company

The future social and economic interests of the United States will be best served by a strong private pension system providing retirement benefits for employees of private businesses. To lose this system would result in an impoverished future for this country, and the millions of individuals currently receiving benefits from the private pension system.

Vulcan Materials Company sponsors 17 defined benefit pension plans and 5 defined contribution pension plans which provide benefits for approximately 6300 hourly and salaried employees. Approximately 95% of these 6300 employees have total company earnings of less than $40,000 annually. In addition, Vulcan sponsors three medical benefit plans and two life insurance plans which provide benefits for these employees and their dependents.

Contributions by Vulcan Materials Company to these plans during 1984 will total approximately $14,000,000. These pension plans are designed, when combined with other benefits (including social Security benefits), to provide career employees with substantially the same spendable income during retirement that they received as an employee prior to retirement. While no employee contributions are required under our defined benefit pension plans, our defined contributions plans, which require employee contributions, encourage our employees to participate in their own retirement planning. Our medical benefit plans are designed to require employees to share the cost of minor medical expenses while protecting employees and their dependents against catastrophic medical expenses.

If tax incentives designed to encourage the establishment of private pension and benefit plans are discontinued, many of the plans currently in existence may be terminated. The counter incentive would be to pay total compensation in wages and salaries and force individuals to plan and fund for their own pension benefits. Many, who under the current private pension system will have a pension benefit, may not exercise prudent judgment in planning for their own retirement and become a burden to government sponsored programs funded through additional taxes.

Individual Retirement Accounts (IRA's), while useful, cannot take the place of our private pension system. The amounts which

can be contributed to an IRA are limited and do not have the added incentive of employer matching contributions to encourage individuals to save money for future economic needs. Without these private pension plans, Social Security benefits alone would prove inadequate to sustain these employees. The Social Security system would be unable to meet the demands required of it, particularly in light of the ever-increasing number of retirees being supported by proportionately fewer young people paying into the system.

This company and its employees would find any increase in tax impact on employee benefits quite disturbing. Instead of controlling government expenses, all the pressure generated by such a move would be toward increasing government expenses.

Wadsworth, Inc.

August 3, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

RE: Taxation of Employee Benefits
July 26, 27 and 30

This memo is intended as a position statement about Wadsworth's benefits for employees.

Wadsworth, Inc. is a college textbook publisher headquartered in Belmont, California. We publish texts in virtually all college disciplines for sale to almost all colleges and universities in the United States and also institutions of higher education in other countries.

The benefits which Wadsworth provides are designed to protect the employee, to provide future benefits, and to enhance the employee's relationship with our company.

Our benefits do not principally go to the higher-paid employees. Most of the benefit programs that we have are applicable to all employees at all levels with the primary criteria being only that you are a Wadsworth employee.

Since more than half of our employees are women, our benefits do not principally go to men. Men and women participate equally in our benefit programs.

Our pension plans are designed to provide benefits in a non-discriminatory manner. Employees participate on a non-discriminatory basis.

We believe that our employees would suffer if Wadsworth-sponsored benefits did not exist or are reduced. We believe that our benefits are essential to the economic security of our employees, our retirees, and their dependents.

It seems to me that the spirit of Congress in employee benefit matters has changed in the last several years. Wadsworth and many other companies have sponsored employee benefits partially because there were incentives to do that (e.g. tax deductions).

10 Davis Drive *Belmont, California 94002* *(415) 595-2350*

It now appears that Congress plans to take away or at least tax that which it originally encouraged.

I would urge you to consider these factors in your review of employee benefits. Wadsworth opposes additional taxation of employee benefits.

Very truly yours,

Ed Key
Personnel Director

cc: William L. Armstrong
Max Baucus
Lloyd Bentsen
David L. Boren
Bill Bradley
John H. Chafee
John C. Danforth
Robert Dole
David Durenberger
Charles E. Grassley
H. John Heinz
Russell B. Long
Spark M. Matsunaga
George J. Mitchell
Daniel Patrick Moynihan
Bob Packwood
David Pryor
William V. Roth
Steven D. Symms
Malcolm Wallop

W

Washington Co. - Johnson City EMS, Inc.
507 EAST MAIN STREET
JOHNSON CITY, TN 37601

EMERGENCY PHONE
(615) 926-3131

BUSINESS PHONE
(615) 926-8278

July 27, 1984

Mr. Robert A. DeArment, Chief Counsel
Committee on Finance
Washington, D. C. 20510

Sir:

In regard to Senate hearings on taxation of employee benefits scheduled for July 26, 27, and 30, 1984, I offer my feelings on this most important of issues.

I represent Washington County-Johnson City EMS as Director and want you and other legislators to realize the gravity of a governmental decision to tax employee benefits. The Paramedics and EMT's in this service have a very generous benefit package including health insurance, sick and compensatory time, vacation time, paid holidays, life insurance, retirement benefits and credit union privileges. This has been a godsend for employee morale as my men have received this in lieu of proper pay increases. My people have never been paid an equitable wage for the services they perform.

I can assure you that just about everything else, from pay to recreation, is taxed in our area. To add insult to an already injured salary will slowly choke to death the economic security of those who work for small businesses.

Please think twice and act only once. Decisions in matters such as this should be made responsibly and with thought to the impact on those you are elected to serve.

Sincerely yours,

WASHINGTON COUNTY-JOHNSON CITY EMS, INC.

John M. Charlton, Director

JMC/hb

w

STEVEN J. KOLLMANN, F.L.M.I.
Administrator
Salary Administration and Benefits

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

PUBLIC HEARINGS ON THE TAXATION OF EMPLOYEE BENEFITS
JULY 26, 27 & 30, 1984

Dear Mr. DeArment:

On behalf of Washington National Insurance Company, a major life and health insurance company employing over 4,000 home office and field agency associates, I solemnly oppose the Treasury Department's latest efforts in challenging what employers throughout the country have been historically encouraged (via tax incentives) to offer the American labor force . . . employee benefit plans which insulate workers and their survivors against life's greatest threats . . . namely, loss of income associated with retirement, death and disability as well as extraordinary medical expenses triggered by staggering increases in healthcare costs. Without the levels of financial security being offered to American workers by employer-sponsored benefit programs, the burden would once again be placed on government to sustain an employee's or survivor's standard of living when income is jeopardized following one or several of life's contingencies. As Congress continues its struggle with

existing government-sponsored Old Age, Survivors, Disability & Medicare Insurance programs, I fail to comprehend the government's capacity to assume even greater liabilities of this nature and, thus, categorically oppose the Treasury Department's position in this regard.

The attached exhibits reflect the magnitude of Washington National's commitment toward its employee benefits program, including specific dollar amounts credited per employee. In terms of participation eligibility requirements, no Washington National benefit plan discriminates in favor of race, color, creed, national origin, age, sex, income or any other factor not permitted by governmental mandates.

Washington National Insurance Company firmly endorses a continuation of tax-favored benefit programs for American workers and urges Congress to support further changes in the tax code which, through employer-sponsored benefit plans, will offer America's labor force greater incentives to accrue personal savings and to minimize personal cash outlays for medical attention.

Sincerely,

S. J. Kollmann

SJK:lb

Company Name (Optional) _____

☒ All Employees # 2,050
☒ Salaried Only # 1,735

TABLE 1

EMPLOYEE BENEFIT DOLLAR COST, BY CATEGORY, 1983

Benefit	Employer Payment $	Per Employee $
Total Benefits	15,335,914	7,481
Legally-Required Employer Payments	3,192,510	1,557
Social Security	2,527,545	1,233
Unemployment Compensation	578,422	282
Workers' Compensation	86,543	42
Other Payments	-	-
Discretionary Taxable Benefits	7,700,255	3,756
Time Not Worked	5,025,309	2,451
Rest Periods	2,674,946	1,305
Other Taxable Benefits	-	-
Discretionary Tax-Favored Benefits	4,443,119	2,167
Defined Benefit Pension Plans	710,763	347
Capital Accumulation Plans	115,318	56
Disability Plans	79,839	39
Group Health and Life Insurance	2,623,153	1,280
Active Workers	-	-
Retirees	-	-
Other Tax-Favored Benefits	911,046	444

Company Name (Optional) _____

☒ All Employees # 2,050
☒ Salaried Only # 1,935

TABLE 2

EMPLOYEE BENEFITS PERCENTAGE COST, BY CATEGORY, 1983

Benefit	Employer Payments as Percent of Wages and Salaries	Employer Payments as Percent of all Benefits
Total Benefits	38.3	100.0
Legally-Required Employer Payments	7.9	20.8
Social Security	6.3	16.5
Unemployment Compensation	1.4	3.8
Workers' Compensation	0.2	0.6
Other Payments	-	-
Discretionary Taxable Benefits	19.2	50.2
Time Not Worked	12.5	32.8
Rest Periods	6.7	17.4
Other Taxable Benefits	-	-
Discretionary Tax-Favored Benefits	11.1	29.0
Defined Benefit Pension Plans	1.8	4.6
Capital Accumulation Plans	0.3	0.8
Disability Plans	0.3	0.5
Group Health and Life Insurance	6.7	17.1
Active Workers	-	-
Retirees	-	-
Other Tax-Favored Benefits	2.3	5.9

Company Name (Optional) _____

[x] All Employees # 2,050
[ ] Salaried Only # 1,935

TABLE 3

RETIREMENT PROGRAM AVAILABILITY, 19 83

	Defined Benefit				Employer Capital Accumulation				401(k)			
	Participate		Vested		Participate		Vested		Participate		Vested	
	#	%	#	%	#	%	#	%	#	%	#	%
$0-$ 9,999	___	___	___	___	___	___	___	___	___	___	___	___
10,000- 19,999	___	___	___	___	___	___	___	___	___	___	___	___
20,000- 49,999	___	___	___	___	___	___	___	___	___	___	___	___
50,000- 99,999	___	___	___	___	___	___	___	___	___	___	___	___
100,000 or more	___	___	___	___	___	___	___	___	___	___	___	___
Total	2361	100%	1115	100%	1707	100%	283	100%	___	100%	___	100%

Company Name (Optional) _____

☒ All Employees # 3,050
☐ Salaried Only # 1,935

TABLE 4

HEALTH BENEFIT AVAILABILITY, 1983

	Group Insurance		125 Plan		HMO	
	#	%	#	%	#	%
$0-$ 9,999	___	___	___	___	___	___
10,000- 19,999	___	___	___	___	___	___
20,000- 49,999	___	___	___	___	___	___
50,000- 99,999	___	___	___	___	___	___
100,000 or more	___	___	___	___	___	___
Total	1,164	100%	___	100%	634	100%

Company Name (Optional) _____

☒ All Employees # 2,050
☐ Salaried Only # 1,935

TABLE 5

RETIREE BENEFITS

Benefit	Number of Persons	Total Distributions or Cost	Year
Defined Benefit Plan Retirees in Pay Status	# 135	$ _____	1983
Defined Benefit Plan Retirees Survivors in Pay Status	# 22	$ 1,084,435	1983
Defined Benefit Plan Vested Separated	# 192	N/A	1983
Capital Accumulation Plan Retirement Age Distributions	# -	$ _____	1983
Capital Accumulation Plan Termination Distributions	# _____	$ 1,519,791	1983
Retiree Health	# 348	$ 538,385.66	1983
Retiree Life	# 331	$ 53,161.75	1983
Retiree Other	# _____	$ _____	19__

W

Wachovia

Wachovia Bank & Trust Company, N.A.
P.O. Box 3099
Winston-Salem, NC 27150

August 13, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely,

Joe O. Long

Joe O. Long
Assistant Vice President

lh/

Attachment

Submitted as Part of the Record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management.

By: Joe O. Long
Employee Benefits Department, Trust Division, Wachovia Bank and Trust Company, N.A.

As these hearings go forth it is important that certain important points regarding the employee benefit system be made a part of the record of this Committee.

I. The present employee benefit system serves useful social and economic purposes:

The argument that the present system serves no useful social or economic purpose presents a myopic view of the employee benefit system. The futures of millions of workers should not be destroyed by those who would raise revenue now and sacrifice the future of our country's workers.

Private pensions assist in providing, and will continue to assist in providing if left alone, an adequate level of retirement income for millions of middle-class and working class American families. There are three sources of income available for retired Americans: personal savings, social security and private pensions.

As a practical matter private savings are becoming less of a source of retirement income for most people. There are two major causes. The first is taxes. Our present system of taxing earnings on savings removes the impetus for saving. Second, the emphasis in our society is on current consumption rather than saving.

The Social Security system provides coverage for the vast majority of American workers, and delivers from 25% to 50% of the final average earnings for a majority of workers. However, the system is heavily skewed in favor of those earning less than $15,000. This leaves the private pension system to fill the needs of the middle-class and working class in America.

Wachovia Bank and Trust Company, N.A. is trustee of over 900 companies' retirement plans ranging in asset size from a few thousand dollars to plans of over 2 billion dollars. These plans range in size from those covering 1 employee to those covering thousands. From these plans we now make approxi-

mately 29,500 monthly payments to participants and their beneficiaries and approximately 3200 single-time payments per month. These payments are of widely varying amounts to people of all classes of society. For some these payments help provide for more than the subsistence living available if their only retirement plan is social security while for others these payments allow the maintenance of their life style and homes for which they have worked all their adult lives.

As a bank trust department we invest the assets of these plans in a manner which puts forward valid social and economic policies. We invest in security issues of many corporations which help these companies meet their capital needs. Some assets may go into venture capital which help new and fledgling companies develop Portions of the assets may be used to develop real estate to be used in commerce. Finally, portions of the assets of the trusts may be used to acquire debt instruments of the United States and its agencies so that the government may continue to operate.

The taxes on retirement plan assets are deferred while the funds are in trust but are available for tax at the time of distribution to the employee. With the removal of sheltering of this money in the estate of a participant by recent legislation taxes on plan assets are deferred, not avoided. However, this deferral allows the accumulation of an amount which provides a meaningful benefit to the employee.

II. Retirement plans benefit all groups of employees, not just the highly paid.

As stated above, as Trustee we make approximately 29,500 monthly payments and 3200 lump sum payments per month. These payments go to all classes of workers at all income levels.

According to a recent study by the Employee Benefits Research Institute charges that benefits go to the higher paid are not substantiated. The research results show that 54 percent of the pension-related tax benefits flow to middle class workers with incomes between $20,000 and $50,000 per year. The study concludes that the distribution of tax benefits closely resembles the distrbution of tax liability under the present tax system. Copies of the study are available from the Employee Benefits Research Institute.

III. The present system is more favorable than IRAs or on IRA type benefits system as a stand-alone retirement system.

While providing an extremely valuable supplement for retirement the major weakness of IRAs or IRA type plans is that the benefit at a worker's retirement depends on his account balance. This account balance grows solely from employee contributions and earnings thereon. This account balance grows without assistance from the employer, often without the aid of professional management of the funds within the account and with contributions being limited to small amounts by the tax code.

Accumulations for an employee are initially hampered by the fact that employees may contribute small amounts or even nothing to their accounts when they are young. This is caused by the fact that wages are generally lower in the first years of employment with most of a worker's pay covering the expenses of starting a home and a family. Younger workers also do not realize fully the need for retirement savings. Finally, without an employer matching contribution or the discipline of payroll deductions the impetus for IRA saving is not available to the majority of workers.

As a result the smaller savings of the early years are invested at compound interest for longer periods of time than the larger contributions of later years. With extended inflation, the higher contributions made in later years may not offset the lower contributions of the early years -- unless superior investment results are achieved. Superior investment results generally result from higher levels of investment risk. This risk rests with the employee.

Through employer contributions to a defined contribution plan for younger employee earnings may compound longer over greater amounts in order to give a more appropriate benefit. Additionally, if a defined benefit plan is maintained by an employer past service (early years on the job) can be given immediate recognition and benefit amounts tied to the later, higher paid years of service.

As stated above these IRA accounts do not always receive the assistance of professional management. With a broad based IRA retirement savings system the IRA funds are invested by the individual owner, many of whom do not have investment expertise. With conflicting advertisements bombarding him the individual may choose an inappropriate vehicle for his only retirement saving vehicle.

It has only been since 1982 that all workers could have IRAs. Previously, those employees covered under a qualified plan could not establish and contribute to IRAs. Most individuals who will be reaching retirement age within the next twenty years therefore do not have substantial IRA accounts. Additionally, the IRA contribution limits (2000 individual and $2250 individual with nonworking spouse) do not allow for large contributions in later years when an employee has the disposable income to make such a contribution.

As presently constituted IRAs serve best as a supplement to an employer sponsored retirement plan, not as a stand alone retirement plan.

For the reasons given above the present retirement system deserves the tax incentives which support the system.

Rec W

WEINER MEMORIAL MEDICAL CENTER

HOSPITAL
NURSING HOME
AMBULATORY CARE CENTER

300 SOUTH BRUCE ST.
MARSHALL, MN 56258
507/532-9881

July 24, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

I wisn to take this opportunity to express our concern for the discussions the Senate Finance Committee is having regarding the future of tax free employee benefits.

We employ 265 people, the majority of whom are non-professional employees earning less than $12,000 per year. We have been able to offer them benefits that they otherwise would not have, namely, health insurance, dental insurance, long-term disability, and life insurance. If they must begin to pay taxes on these benefits, I'm sure many of them would drop the insurance. They participate in the premiums now, but the majority have still opted for the coverage because in most instances these benefits are not available through their spouses.

I know the thought people in the Congress have is that these benefits are mainly given to the higher paid employees. This is not the case with our organization.

Sincerely,

Ronald L Jensen
RONALD L. JENSEN
Administrator

RLJ:kb

TAXATION OF EMPLOYEE BENEFITS

Submitted by Wellco Enterprises, Inc., of Waynesville, N. C.

Taxation of Employee Benefits Hearing Dates July 26, 27 and 30, 1984

This company, a North Carolina corporation, on behalf of its employees and the employees of its wholly-owned subsidiary, Ro-Search, Inc., also a North Carolina corporation of the same address as Wellco, has maintained for more than forty (40) years medical and hospital group insurance and since 1967 for the employees of the two (2) corporations a Pension Plan.

(a) Benefits are the same for men and women, irrespective of their pay scale.

(b) Except for the adjustment in life expectancy, rights for women are identical to those as they are for men. The present discrepancies, affecting only contingent annuities and similar survivor rights, are in the process of being eliminated.

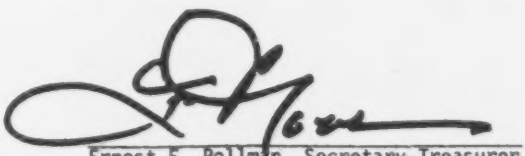
(c) Our pension benefits for hourly-paid employees, having been the subject of negotiations with Local 345 of the United Rubber, Cork, Linoleum and Plastic Workers of America, have almost tripled over the years. No such adjustment has been made under the Pension Plan for salaried employees, although the provision for co-ordination of benefits with Social Security payments might result for such salaried employees in proportionately lower benefits, due to the continual increases in Social Security benefits.

(d) Our employees would undoubtedly suffer financially if the benefits for health and medical insurance and pension rights would not exist.

Furthermore, there is a great likelihood that a number of our employees would fail to obtain individual health and hospital insurance, possibly resulting in tremendous hardship in cases of catastrophic illnesses. It is also unlikely that the majority of employees would realize that in lieu of company-sponsored pension benefits they would have to provide for sufficient savings at the end of their working life.

(e) We believe that employee benefits are essential to the economic security of our employees, both active and retired ones, and that especially for younger employees our group health and hospital insurance are most important.

We believe that businesses like ours, although a small business enterprise, have created an efficient arrangement covering the needs of our employees through health and hospital group insurance and pension plans. Though modest, compared to some of the giants of the industry, we have done so to the great satisfaction of our employees. We believe that company-sponsored plans similar to ours are superior to anything a Government program could produce. We feel that if administration of such plans would be in the hands of the Government, the cost to all of us would be higher without necessarily improving the administration of the plans and the satisfaction of our employees.



Ernest E. Rollman, Secretary-Treasurer
Wellco Enterprises, Inc.

WESLEY
MEDICAL CENTER
550 NORTH HILLSIDE ■ WICHITA, KANSAS ■ 67214-4976
A member of Health Frontiers, Inc. and Voluntary Hospitals of America, Inc.

July 27, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Enclosed please find the written statement of our company, Wesley Medical Center, in connection with the hearings of the Subcommittee on Taxation and Debt Management scheduled for July 26, 27, and 30, 1984 on the issue of fringe benefits.

Respectfully yours,

R. James Mitchell
Senior Vice President - Human Resources

RJM:ps

STATEMENT OF WESLEY MEDICAL CENTER

IN CONNECTION WITH THE HEARINGS

OF THE SENATE FINANCE SUBCOMMITTEE

ON TAXATION AND DEBT MANAGEMENT

ON THE SUBJECT OF FRINGE BENEFITS

JULY 26, 27, AND 30, 1984.

WESLEY
MEDICAL CENTER
550 NORTH HILLSIDE ■ WICHITA, KANSAS ■ 67214-4976
A member of Health Frontiers, Inc. and Voluntary Hospitals of America, Inc.

July 27, 1984

Roderick A. DeArment, Esq.
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

We were unable to attend the employee benefit hearings held by the Senate Finance Committee on July 26, 27 and 30. However, we believe the private employee benefit system is an extremely important aspect of the employer/employee relationship.

The Congress has acted numerous times to encourage employers to protect the economic security of their employees against health, disability, retirement and job loss risks. These private programs complement Social Security, Medicare and other public programs. Employee benefits are a living example of how the public and private sectors can work together to achieve social objectives.

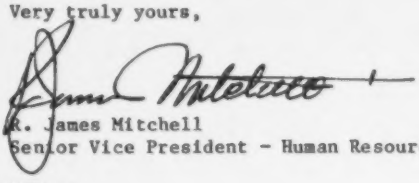
At Wesley Medical Center, greater than 80 percent of our employee population is female. Over 75 percent of the eligible employees are participants in our retirement program, and 69 percent of the employees enrolled in our health insurance programs earn less than $20,000 per year. These benefits are vital to the economic security of these workers.

We have worked with employees in an attempt to reduce unnecessary use of employee benefits and at the same time reduce the costs of those benefits. We have improved the plan design of our long-term disability program by extending the self-pay waiting period. We have made changes in premium payment methods, from an all premium paid health insurance program to one which pays administrative and claim cost only. We have encouraged the use of HMOs to the point that 30 percent of our employees now participate in a health maintenance organization. More than 2,000 or our employees belong to a well club, which strives to provide education and physical fitness programs to encourage healthful lifestyles and reduce employee and family health problems.

We believe that any future limitations on benefit plan design and operation ultimately will serve to handicap our response to economic and social change.

We would be happy to meet with you to discuss the private employee benefit system, the vital ways in which benefits complement our Social Security system, and the economic security they provide.

Very truly yours,



R. James Mitchell
Senior Vice President - Human Resources

RJM:ps

Enclosures

cc: Bob Packwood
Robert Dole
Nancy Kassebaum

WESLEY MEDICAL CENTER
EMPLOYEE BENEFIT DOLLAR COST
July 27, 1984

TABLE #1

All Employees 3,291
Salaried Only 458

	Wesley Medical Center Cost	Cost Per Employee
TOTAL BENEFITS	$ 21,437,205	$ 6,514
Legally-Required Employer Payments	4,825.221	1,466
Social Security	4,087,515	1,242
Unemployment Compensation	632,202	192
Worker's Compensation	105,504	32
Discretionary Taxable Benefits	10,699,104	3,251
Vacation	2,944,571	895
Shift Differential	2,759,737	839
Weekend Differential	2,019,352	614
Holidays	1,721,240	523
Sick Pay	1,146,856	349
Holiday Differential	78,561	24
Jury Duty	14,995	5
Bereavement Pay	13,792	4
Discretionary Tax-Favored Benefits	5,912,880	1,797
Medical/Dental	2,539,841	772
Retirement Plan	1,441,232	438
Cafeteria (Employee)	481,000	146
Tax-Deferred Annuity	325,190	99
Long-Term Disability	284,879	87
Wellness Program	226,544	69
Parking	221,313	67
Discounts	140,334	43
Employee Health Services	101,691	31
Life Insurance	75,650	23
Tuition Aid	64,867	20
Child Care	10,339	3

WESLEY MEDICAL CENTER
EMPLOYEE BENEFITS PERCENTAGE COST
July 27, 1984

TABLE #2

All Employees 3,291
Salaried Only 458

	WMC Payments as % of Wages and Salaries	WMC Payments as % of all Benefits
TOTAL BENEFITS	34.61	100.00
Legally-Required Employer Payments	7.79	22.51
Social Security	6.60	19.07
Unemployment Compensation	1.02	2.95
Worker's Compensation	0.17	0.49
Discretionary Taxable Benefits	17.27	49.91
Vacation	4.76	13.74
Shift Differential	4.45	12.87
Weekend Differential	3.26	9.42
Holidays	2.78	8.03
Sick Pay	1.85	5.35
Holiday Differential	0.13	0.37
Jury Duty	0.02	0.07
Bereavement Pay	0.02	0.06
Discretionary Tax-Favored Benefits	9.55	27.58
Medical/Dental	4.10	11.85
Retirement Plan	2.33	6.72
Cafeteria (Employee)	0.78	2.24
Tax-Deferred Annuity	0.53	1.52
Long-Term Disability	0.45	1.33
Wellness Program	0.37	1.06
Parking	0.36	1.03
Discounts	0.23	0.66
Employee Health Services	0.16	0.47
Life Insurance	0.12	0.35
Tuition Aid	0.10	0.30
Child Care	0.02	0.05

WESLEY MEDICAL CENTER
July 27, 1984

TABLE #3

All Employees 3,291
Salaried Only 458

RETIREMENT PROGRAM AVAILABILITY
Defined Benefit

	Participate	
	Number	Percent
$ 0 - $ 9,999	35	1.58
10,000 - 19,999	1,311	59.27
20,000 - 29,999	734	33.18
30,000 - 39,999	99	4.48
40,000 - 49,999	16	0.72
50,000 or more	17	0.77
Total	2,212	100.00

HEALTH INSURANCE AVAILABILITY

	Blue Cross-Blue Shield		HMO	
	Number	Percent	Number	Percent
$ 0 - $ 9,999	27	1.63	44	6.12
10,000 - 19,999	1,087	65.56	487	67.73
20,000 - 29,999	480	28.95	157	21.84
30,000 - 39,999	64	3.86	28	3.89
40,000 - 49,999	13	0.78	2	0.28
50,000 or more	21	1.27	1	0.14
Total	1,658	100.00	719	100.00

W

August 13, 1984

WRITTEN STATEMENT OF COLIN G. CAMPBELL,
PRESIDENT, WESLEYAN UNIVERSITY
RE FACULTY HOUSING,
ON BEHALF OF
AMHERST COLLEGE, SMITH COLLEGE, WELLESLEY COLLEGE
AND WESLEYAN UNIVERSITY
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE
PUBLIC HEARING ON FRINGE BENEFITS
JULY 26, 27 and 30, 1984

This statement is filed on behalf of Amherst College, Smith College, Wellesley College and Wesleyan University, for inclusion in the record of the public hearing on fringe benefits held by the Subcommittee on July 26, 27 and 30, 1984, with respect to the faculty housing programs long maintained by these institutions. A request on behalf of President Colin G. Campbell of Wesleyan University for leave to testify orally at the hearing was denied. However, the position taken in this statement was supported in the oral testimony and written statement of President William J. Byron, of the Catholic University of America, on July 30, 1984 on behalf of fourteen educational organizations.

President Nannerl O. Keohane, of Wellesley College, testified on this subject before the Committee on Finance on June 22, 1983, and President Jill K. Conway, of Smith College, testified before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means on November 2, 1983.

The Tax Reform Act of 1984, in section 531(g), provides, in general, that any regulation providing for the inclusion in gross income of the excess (if any) of the fair market value of faculty housing over the operating costs incurred in furnishing such housing (or, if higher, over the rent received) shall not be issued before January 1, 1986. The provision, which was inserted in the bill by the Senate Committee on Finance, applies to faculty housing furnished in 1984 and 1985, but by its terms it is not applicable to housing furnished in years before 1984 or after 1985.

Previously, in November, 1983, the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means had reported favorably to the full Committee a bill, H.R. 677, that would have applied a rule reaching substantially the same result to years before 1984. A similar rule for years before 1984 was approved by the Committee on Finance in October 1982 as section 202 of H.R. 7094. The status of the matter with respect to pre-1984 or post-1985 years was ruled by the Chairman of the conference on the Tax Reform Act of 1984 not to be within the scope of the conference. The Conference Report states that "No inference is intended by imposition of a moratorium for such period [i.e., 1984-1985] as to the proper income tax treatment of faculty housing prior to 1984 or after 1985." P. 1172. The issue for pre-1984 and post-1985 years thus remains to be decided.

We respectfully submit that the moratorium in section 531(g) that is applicable to faculty housing in the years 1984 and 1985 should be extended by Congress to the years prior to 1984. In addition, the rule provided in the moratorium, or else some comparable rule, reasonably capable of administration by the colleges and the Internal Revenue Service, should be adopted by the enactment of specific legislation for years after 1985.

In the discussion that follows, we provide support for the conclusion that the moratorium's "cost" standard is reasonable and appropriate and that the IRS has used unpredictable and inappropriate standards in the past for asserting withholding tax liability arising from traditional faculty housing programs.

First, we recite congressional mandates calling for regulations governing valuation of taxable fringe benefits that will provide "appropriate and helpful rules" and we refer to the Supreme Court's admonition that an employer's obligation to withhold must "be precise and not speculative."

Second, we show that the IRS has failed to meet these directives: the only relevant IRS rulings refer to state lodging valuations (for state unemployment tax purposes), which are substantically less than the rentals here involved, and which have been completely ignored in the Service's treatment of faculty housing programs.

Third, we describe how the standards which have been adopted by the Service for valuing faculty housing have been inconsistent and disparate.

Next, we analyze the only relevant case law on this subject, to show that it is devoid of any guidance on the appropriate measure for valuing faculty housing.

Finally, we conclude that the moratorium's "cost" standard is fair and reasonable, furnishes a feasible administrative standard, is supported by precedent, and is particularly appropriate for nonprofit institutions.

I. Background

The colleges and universities have maintained that participation in their faculty housing programs does not give rise to income to the employee-tenants, that the programs are covered by the moratorium on fringe benefit regulations imposed by Congress since 1978, and that in any event any income to employee-tenants does not constitute "wages" subject to withholding tax liability of employers or to employment taxes. This position was explained in the written statement previously filed with this Committee on June 22, 1983.

The Internal Revenue Service has maintained, to the contrary, that the excess (if any) of fair rental value of each faculty housing unit over the rental charged is income to the employee, is not covered by the previous Congressional moratorium, and is subject to withholding by the college employer and to employment taxes. It has issued thirty-day letters to the four institutions mentioned above for years

beginning with 1973 and 1974. But, so far as we have been able to determine, the IRS is not asserting a similar claim against any of the other colleges maintaining similar faculty housing programs.

II. Valuation rules are needed and mandated, but the Internal Revenue Service has not yet provided any clear rules.

The House Committee report accompanying the new Code section 132, relating to fringe benefits, states:

> "For purposes of assisting both taxpayers and the IRS, the Treasury is to issue regulations setting forth appropriate and helpful rules for the valuation of taxable fringe benefits, and coordinating the applications of sections 61 and 83." (P. 1609)

The Conference Report confirms this statement. (P. 1169)[1]

In Central Illinois Public Service Co. v. U.S., 435 U.S. 21 (1978), the Supreme Court said that "[b]ecause the employer is in a secondary position as to liability for any tax of the employee, it is a matter of obvious concern that, absent further specific action, the employer's obligation to withhold be precise and not speculative." (P. 31)

The Service has not heretofore provided any such "appropriate and helpful rules for the valuation" of the some 600 faculty housing units maintained by the four colleges or

---

[1] The congressional committee reports accompanying the fringe benefit moratoriums enacted in 1978, 1979 and 1981 repeatedly noted that "both taxpayers and the Internal Revenue Service must face difficult problems of valuing benefits provided in kind." See, e.g., Sen. Rept. No. 96-433 (1979), 1980-1 C.B. 486, 488.

by any other nonprofit educational institutions. Nor has the Service provided guidance that would make the college employer's withholding obligation "precise and not speculative." The employers have thus been left with little or no guidance by the Service as to the appropriate rentals to be charged, or as to the amounts subject to withholding or employment taxes if the rentals actually charged are ultimately determined to have been insufficient.

The only specific guidance furnished by the Service with respect to valuing meals and lodging furnished by employers was set forth in Rev. Rul. 68-321, 1968-1 C.B. 415 and Rev. Rul. 68-322, 1968-1 C.B. 416, and later clarified in Rev. Rul. 76-148, 1976-1 C.B. 310. In the first ruling, dealing with the value of meals furnished to employees, the Service ruled:

> "With respect to the amount to be included in wages for Federal employment tax purposes, the Service has placed no specific valuation on meals furnished to employees as part of their compensation, but will take into consideration the approved valuation of meals by the several States where the States have laws or regulations relative to such valuation. Where the States have no such laws or regulations providing for such valuation, the Service will recognize that amount which is the reasonable prevailing value of the meals, taking into consideration all surrounding circumstances, such as the value which the employer charges on his books of account, if the accounts are regularly kept, any agreement which may exist between the employer and the employee relative to the value of the meals, the place where the meals are served, and the nature of the service, etc. The cost of the meals to the employer is not, in and of itself, determinative of the fair value. No single one of the above-mentioned considerations is conclusive but may be a factor in determining the fair value to be placed on the meals so furnished. (Underscoring supplied.)

In the second ruling the Service, with respect to meals and lodging furnished by a college sorority to student-employees, stated:

> "The Internal Revenue Service has placed no specific valuation on meals furnished to an employee as part of his compensation. However, Revenue Ruling 68-321, Page 415, this Bulletin, sets forth the factors that should be considered in determining the fair value of the meals. In computing the fair value of lodging, all pertinent factors should similarly be considered. The cost of the meals and lodging to the sorority is not in and of itself determinative of the value of these items for Federal employment tax purposes." (Underscoring supplied.)

Rev. Rul. 68-321 was "clarified" by the Service in Rev. Rul. 76-148, supra, which concluded:

> "Accordingly, although the State valuation of meals is taken into consideration, it is not exclusively determinative of the value of such meals furnished as part of the employee's compensation, for purposes of the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, and the Collection of Income Tax at Source on Wages.
>
> "Rev. Rul. 68-321 is clarified."

Thus this 1976 ruling indicated that:

(1) the Service thought that before its clarification the 1968 ruling could be taken to mean that the state valuation of meals (and, similarly, lodging) would be treated as "exclusively determinative" for federal tax purposes; and

(2) that for the future the state valuation would be "taken into consideration" but would not be conclusively determinative.

Yet the Service asserts withholding tax liability against the four institutions even for the periods prior to the 1976 clarification, and has failed to set forth for future years any "appropriate and helpful rules" to guide employers or Service personnel in the field.

Thus while referring, among other items, to the value regularly charged on the employer's books, any employer-employee agreement relative to value, and the employer's cost, the 1968 and 1976 rulings, taken together, state a Service position that it would take into consideration the approved valuation of meals, and similarly lodging, by the several states where the states have laws or regulations relative to such valuation. The states have a significant interest in the issue of board and lodging because most of the unemployment insurance taxes (FUTA) flow to the states. The interest of the states was particularly acute because from the earliest days of FICA and FUTA the IRS ruled that board and lodging were subject to employment taxes even if they were exempt from income tax under section 119 because they were furnished for the convenience of the employer. This position was ultimately held by the Supreme Court to be incorrect in Rowan Companies v. U.S., 452 U.S. 247 (1981), but the interest of the states continues with respect to board and lodging not excluded from taxation by section 119.

Attached as Appendix A to this statement is a summary from the CCH Unemployment Insurance Reports, ¶1215,

showing the values currently placed by each of the 50 states and the District of Columbia on meals and lodging combined, on meals alone and on lodging alone. A review of this summary table shows the following:

1. While the values vary from state to state, the table shows that more than two-thirds of the states place a value on lodging at $20 per week (roughly $87 per month) or less, and more than half use $10 per week (roughly $43 per month) or less. Only three states use values of more than $25 per week (roughly $110 per month).

By contrast the rental values asserted by IRS for the years 1973 and 1974 for the faculty housing average some $60 per week, or some $250 per month, and range up to nearly $900 per month, far beyond the guidelines prevailing in the state rules. For subsequent years IRS is using steadily increasing amounts.

2. In Massachusetts, where three of the four colleges involved in the pending audits are located, lodging is valued at $10 per week; in Connecticut, where the fourth college is located, lodging for a single room is valued at $4 per week (shared room $3 a week). The Massachusetts value applies, according to the state regulations, "Until and unless in a given case a rate for board and lodging is determined by the [state] Director"; the Connecticut regulation states that "Where lodging

consisting of more than one room is provided, the administrator shall establish a reasonable value for such lodging."

3. A few of the states, such as Missouri, Texas and Utah, do not set a guideline figure, and since we have not studied all the state regulations some may, as in the case of Massachusetts, permit special determinations by the state authorities in particular cases. Florida, for example, provides that "Lodging shall be deemed to have not less than one-half the fair market value of such lodging to the general public. Fair market value being the rental value of such lodging to the general public." California regulations state that "As a general rule, * * * the department will consider a reasonably estimated cash value of lodging to an employee, for the calendar year 1984 and thereafter except as modified in accordance with this subdivision, to be 66-2/3 percent of the ordinary rental value to the public but not in excess of $400 per month or less than $12.95 per week."

Without dwelling on the details of the various state rules, it is obvious that the rules of thumb provided administratively by the states use values well below the arm's length amounts generally associated with the concept of "fair market value." A figure of $10 per week or less, used by a majority of the states, represents less than 7-1/2 percent of the minimum wage ($3.35 per hour, or $134 per week for a 40-hour

week), far less than the amount normally budgeted for lodging; and it would be a substantially lower proportion of an average wage. Indeed, it seems to be clear that if a convenient rule of thumb is to be used to cover a multitude of cases, some leeway is necessary for employers or else endless controversy would exist. Florida and California, for example, have used one-half or two-thirds of full value.

It is clear that in the case of the four colleges the IRS has not followed its own statement in Rev. Ruls. 68-321, 68-322 and 76-148, supra, that it "will take into consideration the approved valuation" of meals and lodging set by the state. It has wholly ignored the Massachusetts and Connecticut lodging values.

III. The IRS assertions of tax liability against the four colleges have reflected inconsistent and disparate approaches to the determination of rental values of the various faculty housing units.

Instead of taking into consideration state lodging valuation rules set by Massachusetts and Connecticut, and other factors (such as cost) discussed in the rulings cited above, the IRS has sent two IRS valuation engineers, one for each state, to determine the fair rental value of each of some 600 rental units, both houses and apartments, at the four colleges. The engineers have made diligent effort to cope with the problem, but the absence of National Office guidelines and the magnitude of detail involved has led to internal inconsistencies and discrepancies in their reports.

For example, the Connecticut engineer calculated a rental value by taking the last previous real estate tax assessment in 1964, multiplying it by a factor to produce a fair market value in the year in question, and then applying an assumed rate of return on that value to produce the monthly rental figure he deemed fair. The Massachusetts engineer used a similar approach in the early part of his reports, and then rejected it because he concluded it produced too high a rental; he then used lesser figures but still higher in most instances than the rents actually charged by the colleges.

As another illustration, in one report a total rental value has been applied to each apartment house, and then divided by the number of apartment units in the building to fix an equal rental for each unit, regardless of its size. In another report the rental values assigned to each apartment unit in the building vary significantly according to the number of bedrooms in each unit, regardless of whether the apartment is located in the basement or on the top floor and regardless of the total square footage of space in the apartment.

There are other differences and discrepancies in the four reports. Suffice it for present purposes to note that no college executive would have been able to foretell the method of fixing rents for each of a large number of faculty housing units that would satisfy IRS examiners who would ignore the state lodging valuations and have no National Office guidelines

to follow. In fact, in some instances the IRS engineers established rentals less than those being charged by the college, indicating that in the IRS view the college was overcharging those tenants. Moreover, in other cases, while the colleges have naturally sought to maintain rentals for their various faculty units that in their best judgments are relative to each other, according to size, location, etc., the IRS has set rental values that vary from less than one percent to more than 300 percent above the rent charged. And the excess of the IRS figure over the rent charged bears no relationship to the salary of the tenant. Thus the IRS differs from the colleges not only in the aggregate level of appropriate rents but to a substantial extent in the relative rental values of the various units.

It is not sufficient for the IRS or the college to set the aggregate rental values; rents for each unit must be fixed -- a difficult administrative task. For back income tax purposes IRS has asserted against each college a 20 percent withholding tax on the excess of the aggregate asserted rental values over the aggregate rents charged. But had the college charged in the aggregate the rents the IRS maintains would have represented fair value, the college would have had to fix the rent properly for each unit, or if it did not it would have had to withhold the correct amount from each employee-tenant based upon his undercharge on his housing unit. In any event, for FICA purposes the IRS has had to assign a rental

value to each unit because the wages of some employee tenants will not have exceeded the maximum amount subject to FICA tax in each particular year; and it asserts that the college is now liable both for the employer's and the employee's FICA tax. Thus under present law the proper rent for each unit of faculty housing is an issue for pre-1984 years and for post-1985 years.

In Central Illinois Public Service Co. v. U.S., supra, the Supreme Court said, as noted earlier, that "Because the employer is in a secondary position as to liability for any tax of the employee, it is a matter of obvious concern that, absent further specific congressional action, the employer's obligation to withhold be precise and not speculative." (P. 31) We submit that employers are entitled to advance guidance of some kind from the IRS National Office in the withholding of income tax (by far the largest portion of the tax asserted against the four institutions) as well as FICA tax if the IRS seeks to ignore the rental valuations set by the states. Indeed, again as noted earlier, the Ways and Means report accompanying the 1984 Act calls on the Treasury to establish for the future "appropriate and helpful rules for the valuation of taxable fringe benefits" -- rules that are lacking for pre-1984 years.

Moreover, although the Service has had the occasion to examine similar faculty housing programs at other educational institutions, so far as we have been able to determine

it is not asserting against them claims for tax liability similar to that pending against the four colleges. This circumstance underscores the inconsistency and lack of predictability in the Service's position on this issue.

IV. There are no appropriate or helpful guidelines for valuation of faculty housing to be derived from existing court decisions.

The Joint Committee on Taxation staff pamphlet dated July 25, 1984, prepared for the present hearings, states on page 10:

> "Several court decisions have held that on-campus housing furnished to faculty or other employees by an educational institution under the circumstances involved in those cases did not satisfy the section 119 requirements, and hence that the fair rental value of the housing (less any amounts paid for the housing by the employee) was includible in the employee's gross income and constituted wages for income tax withholding and employment tax purposes."[1]

A similar sentence was contained in the Senate Finance Committee report accompanying the 1984 Act (p. 777) and in the Joint Committee pamphlet dated November 2, 1983. The latter pamphlet cited as the four cases Bob Jones University v. U.S., 670 F.2d 167 (Ct. Cl. 1982); Goldsboro Christian School, Inc. v. U.S., 79-1 CCH USTC ¶ 9266 (E.D.N.C. 1978); Winchell v. U.S., 564 F. Supp. 131 (D. Neb. 1983); and Coulbourn H. Tyler, 44 CCH Tax Ct. Mem. 1121 (1982).

---

[1] An appended footnote referred to the 1984-85 moratorium contained in section 531(g) of the 1984 Act.

The first three of these cases involved faculty housing for which no rent whatsoever was charged, and thus did not involve the issue whether participation in a faculty housing program in which the rent charged is sufficient to cover the college's cost of furnishing the housing nevertheless gives rise to income in the form of additional wages. In the fourth case a rent was charged and the employee sought to deduct the rent under section 119, a claim the court found clearly incorrect. In none of these cases, where no rent was charged, was there any apparent disagreement between the taxpayers and the Service as to the value to be placed on the free housing, and hence there is no discussion of the appropriate measure of value in any of these opinions. Only in Bob Jones University and Goldsboro did the IRS seek to hold the institution liable, and in those two cases there was no dispute about the rental values subjected to tax.

Not one of these four cases therefore provides any guidelines for determining whether rent actually charged by an educational institution, even though reflecting its costs, is so insufficient as to constitute additional compensation or wages to its employee-tenants.

V. The "cost" standard for housing contained in section 531(g) of the 1984 Act is fair and reasonable, furnishes a feasible administrative standard, is supported by precedent, and is particularly appropriate for non-profit educational institutions.

Non-profit educational institutions covered by section 501(c)(3) obviously are not operated to make a profit.

Yet that is precisely what the Service would require of the four colleges with respect to their faculty housing for pre-1984 years. The general principle used by these non-profit institutions in operating auxiliary facilities, such as cafeterias and housing for students, faculty, administrative officers and other employees, is that they should be self-sustaining, resulting in no significant overall profit or loss to the institution. This has been a policy recommended over many years by the business officers of the nation's colleges and universities. To the best of our knowledge, only for the four institutions involved in the present cases is the IRS asserting a tax liability in such circumstances.

The educational institution must take into account, in fixing rentals for faculty housing, its own housing operating costs and the rentals which its faculty tenants might reasonably be expected to pay in their financial circumstances. An additional factor might be the so-called "opportunity cost" to the institution-employer. See C. Eugene Steurle, "A Primer on the Efficient Valuation of Fringe Benefits", OTA Paper 51 (U.S. Treas. Dept. 1982). The "opportunity" that the college has as an alternative is not to rent the housing to the highest bidder, for that would undermine the college environment sought to be maintained. The alternative would be renting to students; this is sometimes done, but the rents charged to students in such cases is the rough equivalent of the rent charged to faculty.

For example, Rev. Rul. 68-322, supra, involving meals and lodging furnished to student-employees by a sorority, states that "the cost of the meals and lodging to the sorority is not in and of itself determinative." Yet the proper measure of value to the student-employees would doubtless be the amount charged to student members who are not employees. If, as is likely, those charges are based on cost, no inquiry should be made as to what a public for-profit restaurant would charge its customers.

It would be patently unfair to require every college at its peril to determine a "fair market value" for each of its faculty housing units each year, subject to second thoughts by IRS personnel or judges who might have different views of the aggregate rental levels or to the relative rentals of different units. Some "appropriate and helpful" national guideline from the IRS is required, as the recent committee report accompanying the fringe benefit provisions of the 1984 Act concludes, for the guidance of the institutions for post-1985 years. For pre-1984 years the state valuation rules, to which the IRS has referred -- but which it has ignored in the cases of the four colleges -- furnish guidance, and the rents actually charged are well above those amounts.

From an administrative standpoint the operating cost standard used in the 1984 Act moratorium (section 531(g)) furnishes a readily determinable safe harbor test and eliminates dispute as to the separate rentals to be charged for

each housing unit, since it applies on an aggregate basis for all the housing units. This is the standard that has been applied by IRS with respect to meals (see Technical Advice Memorandum #7740010, dated June 30, 1977); and section 132(e)(2), as added by the 1984 Act, similarly brings certain "eating facilities" under the de minimis fringe exclusion if "revenue derived from such facility normally equals or exceeds the direct operating costs of such facility."

The 1984-1985 moratorium, the recent conference report states, is not intended to furnish any inference as to the rule applicable to earlier years. But the enactment of a moratorium on adoption of any regulation relating to faculty housing acknowledges the existence of a vacuum in the federal regulations relating to earlier years. Unless this vacuum is filled for those earlier years by the adoption of an appropriate and helpful rule such as is contained in the 1984-1985 moratorium, the issue would be left to litigation, and the judiciary would have to supply guidelines for the past -- guidelines that would have retroactive effect on the secondary withholding tax liabilities of the four colleges.[1]

---

[1] If litigation involving the four colleges should result in judicially developed standards for prior years different from those contained in section 531(g), an anomalous situation would exist for the years 1984 and 1985 since section 531(g) merely prohibits the issuance of regulations (and presumably administrative rulings) but does not by its terms deal with the application of judicial doctrines.

VI. Conclusion: Section 531(g) of the 1984 Act should not be confined to the years 1984 and 1985, but should be made applicable to preceding and subsequent years.

We respectfully submit that Congress should not leave the four institutions with this overhanging potential liability in indeterminate amounts awaiting years of costly litigation. We think it only fair and equitable that the standards used in the moratorium in section 531(g) for 1984 and 1985 should be applied to the prior years as well, and that the moratorium standards, or comparable provisions that are readily administrable, should be provided by legislation for years after 1985.

APPENDIX A

Cash Value for Room and Board			
State	Room and Board	Meals	Lodging
Alabama	$5.70 per week	$4.20 per week; $.60 per day; $.20 per meal	$1.50 per week; $.25 per day
Alaska	$63 per week	$32 per week; $4.50 per day; $1.50 per meal	$31 per week; $4.50 per day; $389 per month
Arizona	$262.50 per month	$142.50 per month; $2 for dinner; $1.50 for lunch; $1.25 for breakfast	$120 per month; $4 per day
Arkansas	$40 per week	$22.50 per week; $3.75 per day; $1.50 per meal	$21 per week; $3.50 per day
California	[1]	For 1984, $4.60 per day; $1.00 for breakfast; $1.40 for lunch; $2.20 for dinner; $1.60 for other [1]	[1]
Colorado	$87 per week	$63 per week; $3 per meal	$24 per week; $3.60 per day
Connecticut [2]	.....	$.60 per full meal; $.35 per light meal	$4 per week; $.60 per day for single room; $3 per week or $.45 per day for shared room
Delaware	.....	$.20 per meal	$2.50 per week
District of Columbia	$29 per week	$3.25 per day; $1 per meal	$9.75 per week; $1.50 per day

See end of table for footnotes.

© 1984, Commerce Clearing House, Inc.

Cash Value for Room and Board—(Continued)

State	Room and Board	Meals	Lodging
Florida	.....	$1.00 per breakfast; $2.00 per lunch; $3.00 per dinner; $6.00 per three meals a day	At least ½ fair market value to general public
Georgia	.....	$2.00 for breakfast; $3.00 for lunch; $5.00 for dinner	$100 per month; $25 per week; $5.00 per day
Hawaii	$28 per week	$18.90 per week; $2.70 per day; $.90 per meal	$9.10 per week; $1.30 per day
Idaho	$60 per week	$40 per week; $2.00 per meal[1]	$20 per week; $3 per day
Illinois	$7.75 per week	$.25 per meal	$2.50 per week; $.40 per day
Indiana	.....	$.65 per meal[1]	$1.25 per day[1]
Iowa	$126.35 per week	$56.35 per week; $8.05 per day; $2.05 for breakfast; $2.60 for lunch; $3.40 for dinner; $2.00 for other	$70 per week; $10 per day
Kansas	$40 per week	$20 per week; $3.00 per day; $1 per meal	$20 per week; $3.00 per day
Kentucky	$10 per week	$6.50 per week; $1 per day; $.35 per meal	$3.50 per week
Louisiana	.....	$1 per meal[1]	$10 per week[1]
Maine	$50 per week, single occupancy; $40 double or multiple occupancy	$30 weekly; $1.20 breakfast; $1.20 lunch; $2.00 dinner	$20 per week single occupancy; $10 per week double or multiple occupancy; $3.00 per day single occupancy; $1.50 per day double or multiple occupancy
Maryland	$20 per week	$13 per week; $2.00 per day; $1.00 per meal	$7.00 per week; $1.00 per day
Massachusetts	$25.00 per week	$15.00 per week; $1.00 per meal	$10 per week; $1.50 per day
Michigan	$29.00 per week	$19.50 per week; $3.25 per day; $1 per meal	$9.75 per week; $1.50 per day
Minnesota	$19.60 per week	$12.60 per week; $1.80 per day; $.60 per meal	$7 per week; $1 per day
Mississippi	$5 per week	$3 per week; $.50 per day; $.25 per meal	$2 per week; $.30 per day
Missouri	Fair value	Fair value	Fair value
Montana	$50 per week	$30 per week; $1.50 per meal	$20 per week
Nebraska	$7 per week	$4.50 per week; $.75 per day; $.25 per meal	Furnished room—$2.50 per week; $40 per day; house rent—$3 per week
Nevada	$7 per week	$5 per week; $1 per day; $.25 for breakfast; $.35 for lunch; $.40 for dinner	$3 per week; $.50 per day
New Hampshire	$12 per week; $1.75 per day	$8.40 per week; $.40 per meal	$3.75 per week; $.60 per day; reasonable value of rent for house or apartment

See end of table for footnotes.

Cash Value for Room and Board—(Continued)

State	Room and Board	Meals	Lodging
New Jersey	$10 per week	$6 per week; $1 per day; $.40 per meal	$4 per week
New Mexico	$10 per week	$6 per week; $1 per day; $.40 per meal	$4 per week
New York	.....	$1.15 per meal	$1.85 per day
North Carolina	$15 per week	$10 per week; $1.50 per day; $.50 per meal	$5 per week; $.75 per day
North Dakota	$20.00 per week	$14 per week; $2.00 per day; $.75 per meal	$7.00 per week
Ohio	.....	$.30 for breakfast; $.45 for lunch; $.65 for dinner.	$1.00 per day
Oklahoma	Fair cash value	Fair cash value	Fair cash value
Oregon	[6]	$150 per month; $1.50 per meal	[6]
Pennsylvania [7]	.. ..	$4.50 per week; $.75 per day; $.25 per meal	$2.50 per week
Rhode Island	$11 per week	$7.50 per week; $.50 per meal	$3.50 per week; $.60 per day
South Carolina	$6.80 per week	$5.20 per week; $.80 per day; $.30 per meal	$1.60 per week; $.30 per day
South Dakota	[8]	[8]	[8]
Tennessee	.....	$.75 for breakfast; $1.25 for dinner; $2.00 for supper	$30 per month; $7.50 per week; $1.50 per day
Texas	Reasonable cash value	Reasonable cash value	Reasonable cash value
Utah	Value agreed upon or established by Department	Value agreed upon or established by Department	Value agreed upon or established by Department
Vermont	$20.55 per week	$15.30 per week; $.85 per meal	$5.25 per week; $.75 per night
Virginia	$38.50 per week	$22.50 per week; $3.50 per day; $1.50 per meal	$16 per week; $2.50 per day
Washington	$75 per week	$2.00 per meal	$50 per week
West Virginia	$10.50 per week	$6.75 per week; $1.25 per day; $.50 per meal	$3.75 per week
Wisconsin	.....	$22.55 per week; $1.05 per meal	$15.05 per week; $2.15 per day
Wyoming	$20 per week	$15 per week; $2.25 per day; $.75 per meal	$7.50 per week

[1] California: Value of board and lodging is generally 66⅔ of ordinary rental value to the public but may not be more than $400 per month nor less than $12.95 per week. Special values apply with respect to room and board for seamen and fishermen.

[2] Connecticut: These are maximum values set by state regulation.

[3] Idaho: In the case of hotel and restaurant employees, the valuation placed on meals is as follows: Meals per day (or any part thereof), $1.50; meals per 6-day week, $9; meals per 7-day week, $10.50.

[4] Indiana: Values are dependent upon the basis of wage payment, as shown below.

Basis of pay	Meals per day: One	Two	Three	Lodging
Daily	$ .65	$ 1.30	$ 1.95	$ 1.25
Weekly	3.25	6.50	9.75	6.25
Monthly	13.00	26.00	39.00	25.00

[5] Unless there is a written agreement between employer and employee establishing another amount.

[6] Oregon: If room is furnished in addition to board, no additional value is ordinarily placed upon the room. If room and board is furnished at hotels, resorts, or lodges, or if a room only, an apartment or house is provided, the value is the actual cash value.

[7] Pennsylvania: Figures shown are normal minimums; regulations provide for establishment of reasonable values different from those shown.

[8] South Dakota: Prevailing wage rate for type of work performed or, if agreed upon in contract for hire, the value of the board and lodging, if more than the prevailing wage rate.

w

WESTERN RESERVE LIFE INSURANCE COMPANY

August 3, 1984

Senator Bob Packwood of Oregon recently announced hearings to discuss the roll of employee benefit plans in the United States. I would like to make my ideas known in that regard in a general nature and some thoughts follow:

- o The tax law should continue to encourage employers to provide fringe benefits to their employees.
- o Present rules on coverage requirements seems sufficient from a regulatory viewpoint although simplification of these rules should be made.
- o Government should be encouraged to stay out of the employee benefit area in total and no attempt should be made to provide coverages through tax revenue.
- o Employees should be encouraged to purchase additional benefits, beyond that in which the employer can afford, to cover their needs.

It has been my observation that private employers have a better track record at containing cost and in providing benefits than than of the Federal Government and I believe they should be continued.

Sincerely,

WESTERN RESERVE LIFE INSURANCE COMPANY

J. King Clemons, M.A.A.A.
President

JKC/dg

94(8) Rec W

WESTHOFF
TOOL AND DIE

July 12, 1984

Senator Robert Dole
Senate office Building
Washington, D.C.

Dear Senator Dole:

The purpose of this letter is to state my position and that of my employees in regard to the hearing Senator Packwood of Oregon is holding on the subject of tax-qualified, privately funded employee benefit programs, retirement, savings, life and health plans, etc.

We feel that these programs provided by the employer and received by the employee, on a tax deductible basis for the employer and a tax free basis for the employee, are vital to the financial stability of each person who works for this company. It is true that the company could discontinue this type of program and raise the wages of the employee to provide his or her own coverage. The cost would be greater on an individual basis if premiums remained as they now are established, the government would collect more tax from the individual and the most likely outcome of the situation would be that the employee would drop the coverage due to cost and the money would go for some other purpose. When the need for this coverage was necessary the person would be without. That person could then apply for welfare or some other type of public assistance which would enhance the welfare state which we all abhor. We feel that the government should remove it's presence from all possible interference in the lives of the citizens of this country and as for the cost of the government providing benefits at a cheaper rate that is the joke of the century. Look at the Social Security program, it is bankrupt and has been for years due to management of the government. The government cannot manage anything including the government and it pays thirty times the cost of private industry for anything it buys due to the thieves who do the buying. Look at defense costs and the scandal that has gone on in the Pentagon for decades. If the situation were not so important to each person and vital to all of us for our well being it would be laughable that anyone would consider making changes on the viewpoints that the Committee on Taxation and Debt Management have stated.

We do not feel that the Insurance Industry has any great record to put forth but it certainly does beat what the Federal government has done since the days of the depression in regulating and management. Get the Federal government off the backs of all of us and this country will be great again. Stop all unnecessary spending and you won't have to constantly be looking for more means of taxation. This letter could go on for ten pages in regard to spending and mismanagement in government but it would be a waste of time. Tighten up on rules and clean house, it would be most appreciated.

Very truly yours

Donald R. Westhoff
President

U

Westinghouse
Electric Corporation

Douglas D Danforth
Chairman

Westinghouse Building
Gateway Center
Pittsburgh Pennsylvania 15222
(412) 642 3600

August 10, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dicksen Senate Office Building
Washington, DC 20501

RE: Senate Finance Committee
Hearings on Fringe Benefits

Dear Mr. DeArment:

As Chairman and Chief Executive Officer, I feel compelled to comment on behalf of Westinghouse Electric Corporation on the subjects that were to be addressed in the Senate Hearings on Fringe Benefits.

Throughout its 98-year history, Westinghouse has been a leader in meeting its social responsibilities to employes, their dependents and the communities where it operates.

Among the many highlights and innovative firsts introduced by Westinghouse are paid vacations since the 1880's; disability payments to disabled employes since 1907; pension benefits since 1915; and life insurance coverages since 1920.

From these beginnings, employe benefits at Westinghouse have continued to evolve into a total benefit system. This system embraces a broad spectrum of benefits designed to meet the major needs of all Westinghouse employes. For example our medical, dental and pension benefit plans apply uniformly to 100,000-plus Westinghouse employes at all levels and in all categories throughout the United States.

Historically, the environment of government policy encouraged the development of these programs. Government and industry alike recognized the social benefits of such programs. Government policy consistently encouraged the favorable tax treatment of benefits, both for employes and employers, over many years.

This stability enabled companies such as Westinghouse to develop clearly thought-out programs which provided for the long-term economic security of our employes. It also enabled us to provide programs which, over time, have continued to meet changing economic and demographic conditions.

I am concerned that tax revenue considerations could disrupt this long-term stability in such a way that the development of new or improved programs to meet those changing conditions will cease — or worse, that present private sector programs will have to be drastically curtailed.

Any retrenchment in the levels or the variety of benefits provided by the private sector would inevitably increase pressures on government to fill the breach. The costs to the government would almost certainly exceed any increased revenues resulting from taxing either the employer or the employes on the value of the private sector benefit programs.

I am confident that the private sector can continue to provide benefits which are responsive to employe needs while remaining affordable. While I am concerned by the rapidly escalating costs of providing medical benefits to our employes, retirees and dependents, I believe that by retaining control of our benefits programs, we will be in a far better position to implement measures to encourage more effective utilization of medical services.

I consider it our obligation to continue benefits programs assuring Westinghouse employes protection under a carefully tailored and integrated benefits system -- unless it becomes impractical to do so because of changes in the law.

A corporation has many responsibilities in the course of operating its businesses. Our ability to provide benefits must always be balanced against many other factors to insure that we remain economically sound. If tax rules are adopted that would interfere with this balance, they would restrict our ability to modify benefits in a cost-effective manner to the changing times. In fact, they could make it necessary for us to reassess our ability to continue the broad spectrum of benefits now available to our employes.

Westinghouse fully intends to continue providing a broad spectrum of benefits tailored to meet the needs of all employes. We believe this can be best accomplished under the existing tax laws, which have worked so well in encouraging and supporting the private sector to provide broad-based benefits that otherwise might fall on the shoulders of the government.

Sincerely,

D D Danforth

STATEMENT

SUBMITTED AS PART OF THE RECORD OF THE HEARING ON EMPLOYEE FRINGE BENEFITS HELD ON JULY 26, 27, AND 30 BY THE UNITED STATES FINANCE COMMITTEE AND SUB-COMMITTE ON TAXATION AND DEBT MANAGEMENT

BY: WILLIS & WILLIS, P.C., BAINBRIDGE, GEORGIA

PREFACE

Willis & Willis, P.C. is a CPA firm that spends a substantial part of its time advising clients on private employee benefit plans, implementing the same, providing annual administration, handling amendments required by law changes, and advising on the investment of plan assets. The firm's clients are all small businesses in south Georgia and accordingly the following opinions are based on practical everyday experience with small private pension plans. Since Robert T. Willis, Jr. is a member of the Board of Trustees of the Employees Retirement System of Georgia, the firm also has exposure to the government sector of pension plans.

One - Social and Economic Purpose

Substantially all of the rank and file participants of small private pension plans have social security as the only other pension system for their retirement. Accordingly, the employer's private pension plan offers a much needed supplement, or back-up, for those employees. In many instances, the social security benefits alone will be inadequate making the private pension plan benefits pivotal.

Private retirement plans offer the same social benefit as does the Federal Social Security System. More specifically, it offers the employees an opportunity for a greater standard of living at retirement where there are no other substantial assets to provide for retirement income. Benefits are also frequently provided upon disability or death. More importantly, at a time when the Social Security System is so suspect as to its soundness or longevity, it is most important to provide an incentive for employers to establish and maintain a retirement system for employees outside of the Federal Social Security System. Indeed, it seems the actuarial shortage of the Social Security System could be substantially mitigated if the incentives for private pension systems were increased to the point that employers would more and more assume responsibility for the employee's retirement benefits. That would in turn take part of the burden off of the federal government. It is illogical then, for Congress to continue imposing disincentives on American business to provide private pensions.

Two - Benefits Are Not Primarily For the Highly Paid Employees

Because many pension plans base the amount of benefits or contributions on relative compensation of all the employees, including the principals of the company, it is often proposed most of the benefits therefore are for the highly paid principals. Of course with some companies that will be the case. However, in many private pension plans the benefits for the rank and file are substantial and are relied upon by those employees as discussed above in paragraph one. There are many small businesses where the payroll of the rank and file is so much greater than that of the executives that the benefits definitionally are allocated more to the rank and file than to the highly paid. A broad statement that private pension plans primarily benefit the highly paid widely misses the mark.

The mark being the indisputable fact that private pension benefits for the rank and file, even in those cases where a greater proportion is for the highly paid, is a crucial block in any employee's retirement security foundation. Less than two years ago TEFRA imposed the burdensome top heavy rules with the intention to restrict private pension benefits for the highly paid and cause more benefits to be allocated to the rank and file. Small employers have been, and will be, less inclined to provide private pension plans with those substantial restrictions because of the added administrative cost, the continuing wave of legislation that requires costly amendment after amendment to the plan documents, and the more complicated administrative rules. As a result, fewer rank and file employees will have the supplementary, and perhaps primary, retirement security offered by their company's private pension plan because there will not be one. Some company's are even terminating their plans because of the added burdens, cost, and other disincentives. The missed mark is the highly paid do not need the private pension plans nearly as much as the rank and file, as they have substantial other assets with which to rely on. Because they depend on them most, it is the rank and file that are hurt most by disincentives for private pension plans. When the employer decides it is too costly to implement or continue a plan, the rank and file miss the benefits most.

Three - Private Pension Plans Would Not Survive Without Tax Incentives

As just discussed, many principals of small businesses already have, or anticipate having, substantial assets to provide for their retirement, disability, etc. outside of the company pension plan. Therefore, they are not compelled to look to that source of asset accumulation for their retirement needs. It is necessary then to provide those companies, and principals, with significant tax incentives in order for them to be able to justify the cost of:

a. implementing a plan,
b. adhering to the annual administration requirements,

c. amending the plan every couple of years following law changes,
d. handling the expensive recordkeeping due to the top heavy rules of TEFRA, and
e. providing the plan benefit itself, which is a true additional cost of doing business.

It is only when the employer can realize substantial tax savings to offset part of the ongoing cost of maintaining a plan as outlined above will it be economically prudent to establish and maintain a private pension plan. The overall administrative cost, and reduced tax advantages of private pension plans, have already reached the point where it is harder and harder for a small business to justify establishing a plan. It is getting to the point the costs obviously outweigh any potential benefit.

It is foolish to believe an employer, particularly a small employer, will be as inclined to incur additional business costs and reduce his profit, to provide a retirement plan for his rank and file employees when there is no reason to do so. As to the non-economic reasons such as employee motivation, etc., the studies are simply too inconclusive to rely on that reasoning.

We do not have one client that maintains a pension plan that would have adopted the plan, or that would continue the plan, if the present tax advantages were removed. The benefits simply would not outweigh what has become a substantial cost to maintain a plan.

Four - IRA Type Plans Are Too Limited

The present IRA structure, even if the limits were expanded, is insufficient to provide employees with retirement security, and to provide employers with adequate incentive to maintain such plans. One of the best possibilities for the current Federal Social Security System to remain a viable system is for the private sector to, over time, fund more and more of the responsibility. It is counterproductive, then, to reduce the amount of, and the incentives for, private pensions. It will take the present and even expanded IRA limits, together with the present and even expanded non-IRA private pension benefits, to adequately supplement, or partially replace the Social Security System.

More fundamentally, it is totally illusory to believe an expanded IRA system would benefit the middle to low income work force. They will not benefit because they cannot even fully fund the present $2000/4000 amount. In general, the average American cannot fully utilize the present IRA limits. Since he cannot afford that investment, he must necessarily rely on contributions by his employer on his behalf.

Not only are the benefits from IRA's insufficient, as discussed above an employer has to have substantial incentive to establish

any sort of private retirement plan. The levels of contributions and benefits for defined contribution and defined benefit plans are substantially more than that allowed for IRA's. It is necessary for that type of substantial additional benefit level to be available in order to provide adequate incentive for the employer to offer a retirement plan for himself and his employees. Otherwise, the level of contributions and benefits would be too small in relation to the cost. And, once again the cost would far exceed the perceived benefits by the employer.

Five - Reduction of Private Employee Plan Benefits Would Adversely Impact the Social Security System

Our views on the need of having the private sector take some of the current pressure off the Federal Social Security System has heretofore been set forth. We strongly feel the converse of that is necessarily true. If the current private benefit system was changed such that the incentives or advantages were reduced to a point that businesses ceased adopting such plans, terminated the plans they presently had, or otherwise reduced the benefits inuring from them, the Social Security System would necessarily feel a greater burden of providing for the social and economic support of those cut-off employees. It is totally unrealistic to believe that the current private sector sharing of the social and economic support of employees would not decline substantially if the current system of tax incentives, etc. were reduced. The sum total of all private pension funds comprises the largest fund of investment money in the country. It is unrealistic to believe that fund, and the substantial employee benefits they represent, would have reached its phenomenal level, or that it will continue, absent real economic incentives.

If the private sector reduces or discontinues its part in providing these benefits, who will make them up? There are only two options. One, the federal government through the Social Security System or otherwise, would have to take up the slack - and it would be a tremendous amount of slack. Or two, the slack simply would not be taken up and the American workers would have a substantially reduced potential benefit.

Nothing could be more foolish or more short-sighted than to kill the best partner the Social Security System has, i.e. the private employee benefit plan system.

Six - "Grass Roots" Support

The only support we know of is "Grass Roots" support as our clients and the pension plans that we administer are all those of small businesses in southwest Georgia. Our clients' employees see their pension plans as a keystone to their economic future, and even to the present inasmuch as they provide disability and death benefits. Many young Americans have real doubts whether their

contributions to the Social Security System will ever benefit them. For them, and for owners of small business who have similar concerns, payroll taxes for the Social Security System represent lost funds as an additional cost of doing business, and not as an investment in their future. It is only the private pension plan of their own company that they believe in for their future retirement benefit. It is perceived that up to 50% for income tax, and possibly an additional "tax" where the social security benefits may not fully pay off, is more than enough of a burden; and, the company and its employees should be allowed to slowly provide for their own retirement under the current rules without further taxation.

CONCLUSION

The pension legislative pendulum has already swung too far against the private pension system. All perceived abuses have been addressed in ERISA, TEFRA, DRA '84, and now the Pension Equity Act of 1984. To aid the troubled Social Security System and perhaps enhance American productivity, the private sector should be encouraged to continue its role as pension provider. The current trend of disincentives will not only cause private plans to become economically undesirable, it will severely damage the economic security of the low and middle income American worker. Again, the executive and business owner already have resources apart from the private plan.

Willis & Willis, P.C.

WILLIS & WILLIS, P.C.
Bainbridge, Georgia

Hearings of

The United States Senate Committee on Finance

Subcommittee on Taxation and Debt Management

Pertaining to

Taxation of Employee Fringe Benefits

July 30, 1984

* * * * * * * * * * * * * * * * *

Written Comments

FOR THE RECORD

by

Whirlpool Corporation
2000 U.S. 33 North
Benton Harbor, MI 49022

August 9, 1984

WHIRLPOOL CORPORATION

COMMENTS ON

TAXATION OF EMPLOYEE FRINGE BENEFITS

Whirlpool Corporation (2000 U.S. 33 North, Benton Harbor, Michigan 49022) is the nation's largest producer of major home appliances for the U.S. marketplace. We employ approximately 23,000 people nationwide, and provide them a broad range of fringe benefits costing the company tens of millions of dollars annually. Our benefit programs include, but are in no way limited to: life, health and dental insurance ... retirement pension plans ... savings and profit sharing ... education tuition reimbursement ... a Payroll-based Employee Stock Ownership Plan ... disability income plans ... an employee appliance purchase plan ... and a host of other benefit programs too numerous to itemize here.

Each of these programs is a special adjunct to employees' direct compensation, and improves their overall financial well-being. In most cases, these programs are extended at little or no cost to employees.

The majority -- if not all -- of our benefit programs were developed by the company and distributed to employees with strong encouragement of the federal government by means of favorable tax treatment. In providing that support, Congress rightly determined that government itself profits when employers, rather than the

government, provide for such programs. Although privately funded programs are directed only to a company's own employees, they do, nonetheless, enhance the general welfare by reducing demands on public programs by citizens who receive private sector benefits.

Congress's commitment to employee fringe benefits has deteriorated markedly in recent months into a system of disincentives. There are now several proposals in the 98th Congress to eliminate or substantially reduce the favorable tax treatment of many of these programs. Only last month, Congress killed most employee educational assistance provisions in tax code Section 127 when it passed H.R. 4170.

The vote on that legislation underscores all too clearly Congress's uncanny knack to react contrary to national need and even against its own stated goals. It's an acknowledged fact that technology and international competition have created a new class of unemployed workers in the U.S. in recent years. These are displaced workers who, without vocational retraining and more education to acquire new job skills, may have no hope to re-enter the American workforce. One source estimates 3.5 million U.S. workers make up this new labor class. At Whirlpool, up to 2,900 employees could fall into this category. <u>These are jobless workers who can least afford to shoulder more new taxes</u>.

Now, in the face of compelling and obvious need for more government support for education and retraining programs, Congress has elected

to tax tuition reimbursement to unemployed as well as employed workers who are taking courses for career development that are not related to their present work. We feel that that decision is unwise and contrary to our national interests.

In the main, employer provided benefit programs like Whirlpool's, over the long term, have reduced financial and social pressure on public sector programs like Medicaid/Medicare, Social Security and many other publicly funded programs, than would have been exerted in the absence of such private sector programs. Overall, private sector programs have been administered in a cost-efficient, prudent manner and, left untouched by government, will continue to serve employees' and the nation's needs into the future.

That cannot be said with equal confidence for many government-funded social programs. Medicare, according to one projection, will need a massive infusion of tax dollars around 1987 to remain solvent. Similarly, changing demographics, according to some knowledgeable sources, will necessitate either historic tax increases or benefit reductions, or both, later this century if Social Security is to fulfill the social goals it was designed to accomplish.

Congress's poor record of fiscal and social welfare program management underscores more clearly the need to keep the private sector's benefit programs strong. We submit that it is precisely because Congress has lacked the political resolve to manage the

public purse prudently that the federal deficit has reached an historic level. To lower the deficit, the argument now goes, Congress must raise taxes ... and no potential source of new revenue can be ignored -- even private sector programs that were formerly encouraged by the government.

We believe it would be a grave mistake for Congress to target these programs for new taxes because it would debilitate one of the financially strongest private sector employee programs in existence. If Congress would just discipline its propensity to spend, there would be less need for it to reach into workers' pockets for more tax dollars. The more something is taxed, the less we get of it. The more Congress taxes employee benefits, the fewer the number of U.S. businesses who will likely offer these programs in the future.

If that chain reaction occurs, more Americans will need to look to the public sector for financial and social security. That prospect surely runs counter to the current national sentiment. At a time when more and more Americans are asking for a more limited role for government, we must look to the private sector to assume a greater role. Congress should support -- not discourage -- that effort by continuing to grant favorable tax treatment of employee benefits.

For additional information, please contact:

Andrew J. Takacs, Vice President
Government & Public Affairs
Whirlpool Corporation
2000 U.S. 33 North
Benton Harbor, MI 49022
616/926-3401

Rec

WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS
322 SOUTH MISSOURI
P. O. BOX 8458
WESLACO, TEXAS 78596
512-968-2108

ALBERT WHITE, C.P.A.
JACK HALES JR., C.P.A.
BILL R. BRADFORD, C.P.A.
WILLIS CHEWNING, C.P.A.
LEWIS R. PERRY, C.P.A.
NOBLE C. ALLEN, C.P.A.
JOANNA L. REYNOLDS, C.P.A.
JOHN L. MARLOW, C.P.A.

July 23, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Dirkson Senate Office Building, Room SD-219
Washington, DC 20510

Re: Hearing on Taxation of Employee Benefits
July 26, 27, & 30, 1984

Our firm provides our employees with term life insurance and major medical expense insurance as a fringe benefit, at no cost to the employee.

These benefits are for all employees, not just highly paid employees and benefits go to women as well as men. We feel that workers will suffer if employer-sponsored benefits do not exist. Employee benefits are essential to the economic security of our employees.

Private enterprise has built an effective and efficient arrangement covering the needs of employees through the employee benefit system. It is far superior to any government program that might replace it. It should not be systematically dismantled in the name of greater tax revenues. The employee needs are there and must be met. If private enterprise is not encouraged to meet its needs, government must, and we believe the ultimate price to our notion will be greater.

Respectfully submitted:

WHITE & CO.

Jack Hales Jr.

Jack Hales, Jr., CPA

JHJ/bl

w

TELEPHONE (502) 587-1206

FOUNDED 1907

W. R. WILLETT LUMBER COMPANY
INCORPORATED

Wholesale Lumber

849 STARKS BUILDING

LOUISVILLE, KY. 40202

July 26, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

Consistent with your requirements, I am submitting this letter and the attached statement to be included as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management.

Thank you for your assistance.

Sincerely yours,

Samuel S. Caldwell
Chief Executive Officer

SSC:ss

Submitted as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Finance Committee, Subcommittee on Taxation and Debt Management. By: Samuel S. Caldwell, Chairman and Chief Executive Officer - W R Willett Lumber Company, Inc. 849 Starks Building Louisville, Kentucky 40202

The private employee benefit plan system serves a very useful and worthwhile social and economic purpose. No employer likes to see faithful employees reach retirement age and then find themselves without sufficient means to live without hardship. Social security by itself is not enough. A corporate pension or profit sharing plan is very much needed to supplement social security. Employees rely on these plans and understand how important they are to their future well being in retirement. These plans have enormous grass roots support.

Our plan does not primarily benefit highly paid employees. All employees are treated the same.

Without the tax incentive these plans would wither on the vine.

IRA vehicles are fine for those who do not work for corporations but these corporate plans are better for corporate employees.

The social security system is not in the best of health. Such being the case why tamper with or abolish corporate plans which are working so well and providing such useful social and economic benefits?

W

William E. Mahoney, Jr.
& Associates, Inc.

SUITE 2118
BAYSTATE WEST
SPRINGFIELD, MASS. 01115
(413) 788-7303

LIFE & QUALIFYING MEMBER
MILLION DOLLAR ROUND TABLE

LICENSED MASSACHUSETTS
INSURANCE ADVISOR

MEMBER 1983
TOP OF THE TABLE

July 25, 1984

The Honorable Bob Packwood
Chairman of the Subcommittee on
Taxation and Debt Management
United States Senate
SD-219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Packwood:

Re: Pending Fringe Benefit Hearings

I have been informed of your pending hearings pertaining to the above scheduled to be held on July 26, 27, and 30, 1984. The purpose of those hearings evidently is to develop a full and fair hearing record on current fringe benefit topics and I would just like to submit my own personal comments for your consideration at those hearings.

Our firm is an employee benefit's organization having been in practice for approximately 22 years. I have a staff of 12 people and we specialize in the design, implementation, and administration of various types of benefit programs. We represent approximately 300 corporations located primarily in the east and our average size corporate client has between 300 to 500 employees. All of our corporate clients attempt to provide attractive employee benefits so that they can attract and retain an adequate work force.

The main issue here and primary question would have to be - what would happen if tax laws did not encourage employers to provide fringe benefits? Could Government provide those benefits in a more economic manner? Is there a better way than generally through the existing tax favored, free enterprise system? My personal experience in this area for the last 22 years leads me to believe that there isn't a more attractive method or a more economical manner available to deliver benefits to employees than the existing tax favored benefit provisions (even though they are dwindling!). The social security system is clearly in a state of chaos with a lot of concern from citizens as to the viability or even survival of the social security system itself. Medicare financing is obviously in trouble, and hopefully national health care will never be a topic of the future, but I know that's not really the case!

I'm not exactly certain what the total numbers are, but I know our 300 corporate clients last year in medical care benefits alone provided in excess of two hundred million dollars of health care benefits to their employees. We are a small firm in New England and while that

William E. Mahoney, Jr.
& Associates, Inc.

number is dwarfed by other large consulting firms, two hundred million dollars in medical care benefits, to use bad english, ain't hay! If those benefits weren't provided by the employers, the government would have to assume that responsibility and I doubt that a cumbersome, financially troubled, and problematical system could provide those benefits any where near as economically as my corporate clients did - and do!

As far as what type and level of tax incentives is appropriate, I would simply say that the more attractive the tax law, the more benefits employers will provide. If there are not tax incentives, then I believe it would be financially impossible for my corporate clients to help their employees regardless of how much they might like to do so.

In my opinion, any law should have conditions and restrictions on abuses to discourage employers from eliminating rank and file employees totally from benefit programs. I believe, however, that it would be inappropriate to eliminate incentive for corporate executives by not allowing plans to discriminate in favor of higher paid executives so as to compensate for the discrimination inherent in the social security system. Furthermore, it is those incentives that "make Johnny run" and indeed is the backbone of the American free enterprise system. Restating that, abuses should be totally eliminated, but incentives encouraged.

After working with employee benefits for all these years and settling many life insurance claims, there were many times when the only checks being delivered to a family were from the employers group life insurance plan. I recently delivered a check for $270,000 to a family where the bread winner had a heart/lung transplant. I wonder where that check would have come from if the employer did not have a substantial medical care program? If employers did not offer educational assistance to the employees of their firms, how would the Government be able to assume those financial responsibilities with the cost of an education being what it is these days? Cafeteria plans certainly don't solve the problem, but they certainly provide a greater awareness to employees as to the substantial costs involved in employee benefit planning.

William E. Mahoney, Jr.
& Associates, Inc.

I'm sure you will receive many letters from benefit planners like myself who certainly have a selfish interest in seeing legislation continued and developed in the future to encourage employers to provide benefits to employees. While my interest is admittedly somewhat self-serving, I am totally convinced that to eliminate tax favored programs in the future for employers would be devastating to our country as well as overall financial and economic positions in the future. I would encourage you and your constituents to develop legislation and tax laws to encourage companies to continue providing employee benefits and incentives.

Thank you in advance for your time and consideration in this critical issue.

Sincerely yours,

Bill Mahoney

William E. Mahoney, Jr.
President

WEM/mab

Enclosures

w

STATEMENT OF THE WISER OIL COMPANY IN CONNECTION WITH THE HEARINGS OF THE SENATE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT ON THE SUBJECT OF FRINGE BENEFITS
JULY 26, 27 AND 30, 1984

We at The Wiser Oil Company believe it is our responsibility as employers to meet the basic needs of our employees for financial security. Accordingly, in addition to those benefits legally required; social security, unemployment compensation and workers compensation, we offer the following benefit package to all our employees: Retirement Income Plan, Savings Plan, Group Health and Life Insurance Plan, Group Long Term Disability Plan and Paysop Plan.

Retirement Income Plan

Funding for this plan is borne by the company. Enrollment requires one year of continuous service for all employees. Vesting requires completion of ten years of continuous service. Retirement benefits are computed in the same method whether hourly or salary, male or female. The benefits are calculated using basic pay, years of service with partial reduction for social security. Retiree benefits are reviewed periodically for possible inflation adjustment. A death benefit is also payable on the life of primary recipient in an identical amount for all retirees.

Savings Plan

Funding for this plan is accomplished through voluntary deductions from each employee's base wage in the amount of 2% through 6% with company contribution of 50% of employee contribution. Eligibility requires one year of continuous service. Vesting in company portion of employee account is graduated 20% per year over a five year period. As of January 1, 1984 we had a total employment of 208 with 180 participants in the savings plan, leaving 28 not in the plan. Of these, 24 were not eligible due to length of service and union contract, leaving only 4 eligible employees electing not to join. We, therefore, have a 98% participation of eligible employees with a composite average deduction of 4¼% of each employees base wage. This plan was established as a supplement to our retirement plan to encourage employees to set aside a portion of their earnings for those future years.

Group Health & Life Insurance Plan

Funding for this plan is borne by both the company and the employee. We are well aware of the continuing problem of rapidly rising health care costs. Since these costs are reflected in the premium we and our employees must pay, we are vitally interested in cost containment. We have always required our employees to share in the cost of health coverage since this gives them an awareness of the meaning of cost containment. We are constantly studying this problem and evaluating proposed solutions. Eligibility requirement is three months of continuous service with automatic coverage after this period. All employees, hourly or salary, male or female, have the same coverage except for life insurance which is graduated for supervisory and executive officers.

Group Long Term Disability Plan

Funding for this plan is borne by the company. Eligibility requirement is three months continuous employment with automatic coverage after the waiting period. Monthly benefit is based on earnings at time of disability with reductions for certain types of other income and a $1500 cap on total amount payable. All employees, hourly or salary, male or female, have the same coverage.

Paysop Plan

Funding for this plan is accomplished through a tax credit taken by the company. Eligibility requirement is one calendar year of continuous employment. Benefits are distributed equally to all employees on a monthly unit of credit. Using this method all employees receive equal benefit based on service credit only.

We have chosen to provide benefits rather than additional cash wages because we consider the benefits to be necessary to the economic welfare of our employees. We are in a position to provide insurance coverage at a lower rate than could our employees on an individual basis. This factor added to the tax incentives provided by existing law, allowing us to provide valuable benefits at a price we and our employees can afford. Increasing the cost of benefits through changes in the tax law could mean that we will not be able to provide the same level of protection in the future.

We welcome the opportunity that the Subcommittee on Taxation and Debt Management has provided for us to express our views on the importance of employee benefits. We believe that employers should be encouraged to provide these benefits and, also, continuance of the Internal Revenue Code provisions which provide incentives to employers and employees to commit their dollars to this purpose.

FLEXIBLE BENEFITS:

Promoting Individual Choice And Preserving the Tax Base: Reconciling Two Imperatives

TESTIMONY OF
LANCE D. TANE
MANAGER
FLEXIBLE COMPENSATION TEAM
THE WYATT COMPANY
WASHINGTON, D.C.

BEFORE
UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

JULY 30, 1984

THE Wyatt COMPANY

My name is Lance Tane* and I manage the Flexible Compensation Team of The Wyatt Company, the nation's largest independent employee benefits consulting firm. The Flexible Compensation Team is the largest professional unit in the country working exclusively on the design and implementation of flexible ("cafeteria") benefit plans for major employers. Our clients include a number of Fortune 100 manufacturers and the 50 largest bank holding companies.

Accordingly, I am focusing my testimony on flexible benefit plans -- which are destined to play a central role in the future of employee benefits in this country. Benefit flexibility is a critical subject for this subcommittee to consider in the development of appropriate tax policy with regard to employee benefits in an overall sense.

The fundamental issue facing legislators is how to reconcile the critical need of today's increasingly diverse work force for greater benefits choice and flexibility with the equally critical need to avoid increasing tax expenditures in the face of unacceptably large budget deficits.

Contrary to popular opinion, these two imperatives -- promoting individual choice in employee benefits and preserving the income tax base -- are not mutually exclusive.

---

*The views expressed in this testimony are those of the author and are not intended to represent the views of The Wyatt Company.

It is important to realize that greater choice and flexibility in benefits does not in itself erode the tax base -- it merely surfaces a broad range of underlying tax incentives that have long been in the tax code but have not been fully utilized over the years.

Why have these tax incentives not been fully utilized? The answer is that these incentives are available to employees only through their employers -- and employers could not make them readily available until recently.

They could not do so for two interrelated reasons -- the first based on economics and the second on a doctrine of tax law. The economic reason was well explained by Assistant Treasury Secretary John Chapoton in testimony before the Finance Committee last year on S. 640. He said:

> "Prior to the establishment of cafeteria plans, there was a practical limitation on the extent to which employers could provide compensation to employees in the form of non-taxable fringe benefits. Economically, any individual employee would prefer to receive more compensation in the form of non-taxable fringe benefits only if the employee needed or would use the additional fringe benefit as much as the cash payment that otherwise would be paid, less the tax that would be imposed on that cash compensation. The need for additional fringe benefits would differ from employee to employee. As a consequence, the provisions of additional fringe benefits would be sought by some employees and opposed by others. In the past, employees as a group have reached a mutually satisfactory accommodation where the level of fringe benefits offered by each employer is acceptable to the employee group as a whole.
>
> The level of benefits at which any group of employees develops conflicting interests will depend on the type of benefit being considered and the particular circumstances of the employees. For example, all employees may desire medical insurance protection up to a certain level. However, employees without dependents may want to limit the level of employer-provided health insurance to coverage for a single employee. Collectively, these employees will resist reducing their general level of cash compensation in order to provide more extensive insurance protection that would benefit only employees with dependents.

> The establishment of cafeteria plans eliminates 'employee jealousy' as a constraint upon the use of fringe benefits as a principal means of compensation. Under a properly designed cafeteria plan, an employee will never bear any portion of the economic cost of the fringe benefits enjoyed by other employees. Again looking to the example of medical insurance, an employee will not care if another employee receives tax-free comprehensive health care insurance coverage for an entire family so long as he or she can receive either cash or an equivalent amount of compensation in the form of a desired tax-free fringe benefit."

Until recently, employers could not offer their employees this kind of tradeoff without running afoul of "constructive receipt."

Before this doctrine was waived for qualified cafeteria plans by Section 125 of the Internal Revenue Code, if employers offered their employees a choice between taxable and non-taxable benefits, the availability of the choice automatically resulted in taxable income for the employees regardless of what they actually chose.

Thus, the combination of employees' economic self-interest and constructive receipt encouraged employers to pursue a lowest-common-denominator approach to benefits -- to offer a uniform benefits package of theoretically universal appeal for all employees.

For many years, the "one-size-fits-all" benefits philosophy was viable -- and it artificially protected the tax base from the full impact of the tax incentives for all kinds of benefit-related items embedded in the Internal Revenue Code.

But recently, several powerful trends have converged which have rendered traditional fixed benefits obsolete and created an explosion of interest in the kind of benefit flexibility made possible by Section 125 -- and opened up the underlying benefit tax incentives to greater utilization.

There are five major trends which have converged to reshape the benefits environment:

TREND #1 -- The work force has been transformed by massive demographic shifts. In 1960, 48 percent of American families were supported by one breadwinner. But by 1980, only 33 percent still relied on only one income -- and the number is dropping rapidly. During the same 20-year period, women jumped from 38 percent of the work force to 51 percent.

At many of our large corporate clients, for example, the "typical" employee for whom traditional benefits are designed -- a married man with a non-working wife and children at home -- now represents less than 15 percent of the work force!

TREND #2 -- Benefit costs have soared, largely due to virulent medical inflation. According to the annual Chamber of Commerce study, average company benefit costs have shot up from 19 percent of payroll in 1951 to some 37 percent today.

In dollar terms, the 1,500 companies in the Chamber study spent $510 billion on benefits in 1982 -- about three times what they paid 10 years earlier. Not surprisingly, healthcare cost-containment is a critical concern for many employers.

Companies are attempting to control costs in many different ways. One of them is flexible benefits, because unnecessary benefits (e.g., high levels of life insurance for single employees) or redundant coverage (e.g., overlapping medical plans for two-career couples) can be avoided.

TREND #3 -- The recent severe recession has given even greater urgency to controlling benefits costs. Employers have begun to realize that traditional benefits programs are really blank checks -- management is essentially committed in perpetuity to a specific market basket of benefits, regardless of future cost.

Flex plans, however, redefine the company's benefits obligation in dollars rather than in goods and services. This rips up the blank check. Each employee is allocated a certain number of benefit credits, and every year the employer decides how much to increase the benefit allowance.

39-707 O - 85 - 96

Because flex increases the value of benefits to employees, it can be a powerful tool to accomplish any of three objectives:

1. Add new benefits at lower cost than through a fixed benefit plan.
2. Increase the value of benefits to employees without increasing costs.
3. Maintain the value of benefits to employees while reducing costs.

TREND #4 -- A computer revolution has swept the country. Employers who had been scared off by the complexity of administering a different benefit plan for each employee now have powerful new technological tools at their disposal.

Sophisticated software has become available to handle every aspect of the administration of individually tailored benefit programs for companies of all sizes. There are even versions of such software designed for the personal computer.

TREND #5 -- A body of experience has developed which proves that flex plans are feasible for employers. And that employees like them -- even in cases where companies have actually reduced their benefit expenditures. Several statistics from companies we are working with are particularly revealing:

At one major client, only 6 percent of employees chose to buy back their old benefit package when given the chance. At another, employee satisfaction with the benefits package rose from 48 to 93 percent after

management introduced a flex plan -- and the company's costs didn't increase at all. At a third, the company is saving $2 million a year and employees prefer the new plan to the old!

As a result of these forces, flexible benefit plans are now catching on rapidly in companies large and small in all industries and areas of the country. Flex plans are particularly popular in companies where the employee population tends to be young and female.

They are also becoming widespread in high-technology and professional service businesses, as well as in fields such as banking that are evolving rapidly -- and which must attract, motivate, and retain a higher caliber of employee than ever before.

In addition, utilities and manufacturing companies have turned to flex -- and unions are starting to get past their initial negative reactions and realizing the advantages to both labor and management.

Hundreds of companies large and small are making their benefits more flexible -- ranging from adding elements of choice to conventional plans to establishing comprehensive flex plans.

There is a groundswell of employee interest across the country. And the press -- always looking to spot a trend -- has caught on to the story.

Flex is an idea whose time has come. It is too powerful to stop because it simply makes too much sense and responds too well to the needs of today's work force.

THE Wyatt COMPANY

T

Giving people the freedom to control their own economic decisions strikes a deep chord in the American psyche. Moreover, promoting individual initiative is consistent with the philosophy of this Administration and eliminating artificial barriers to consumer choice is in step with the deregulatory mood of the times.

And contrary to the prevailing notion in Washington, flexible benefits do not discriminate in favor of the highly paid and the concept has powerful appeal to people in all income brackets.

On a legal and regulatory level, tough anti-discrimination requirements are written into both the recently issued proposed regulations for Section 125 and the newly enacted Deficit Reduction Act of 1984.

In practice, employees in all salary categories tend strongly to favor flexible benefits. As benefits consultants, our experience is that 85 to 95 percent of employees choose to rearrange their existing benefit package when given the chance to do so with a flex plan. The 85 to 95 percent range holds steady across the wage spectrum.

Finally, a sharp contrast to conventional wisdom is the fact that flexible benefits appear to be of even <u>greater</u> interest to the lower-paid than to the higher-paid. In a recent nationwide attitude survey conducted by the Opinion Research Corporation, 49 percent of respondents in all income brackets said that when considering roughly equal job offers from two different companies, they would be more likely to choose a company offering flexible benefits over one with conventional fixed benefits.

However, an extraordinary 59 percent of employees in the study earning $15,000 per year or less said they would be more interested in a job that offered a flex plan over one that did not. By comparison, only 48 percent of the respondents earning $35,000 per year or more were similarly motivated by a flex plan. So much for the myth that flex appeals only to the highly-paid.

However, as the flex trend rapidly gains momentum, there is increasing concern is some quarters that it may lead to erosion of the tax base because employees have access to a larger portion of their total compensation in a non-taxable form.

What is to be done? The answer is not to try to turn back the clock and crack down on individual choice -- but to rethink the underlying tax incentives. It is my belief that some of these longstanding incentives have become misfocused and need to be reconsidered.

For example, let's look at medical insurance, the example cited by Assistant Secretary Chapoton.

All payments to covered employees from employer-sponsored medical plans have long been non-taxable to these employees. However, for people who are not participants in an employer-sponsored plan, any medical expenses incurred up to 5 percent of adjusted gross income are non-deductible and must be paid for with after-tax dollars.

This contrasting tax treatment leads to some important questions:

- Did Congress intend to have payments for everything covered by employer-sponsored medical plans go completely tax-free?
- Should there be a distinction in tax status between essential and non-essential coverage? Are eyeglasses deserving of the same tax incentives as heart surgery?
- Was the enormous increase in medical costs -- and hence the value of this tax exclusion -- foreseen?
- Philosophically, is it fair to discriminate between employer-provided and employee-purchased medical benefits? Why should there be unequal tax incentives?

One way to redress this serious inequity would be to designate as taxable income to the employee a portion of the payments -- not the coverage but the proceeds -- that he or she receives from an employer-sponsored medical plan.

For example, if we want to equalize the tax incentives for insured and uninsured medical expenses, payments from employer-sponsored medical plans could be made taxable up to 5 percent of adjusted gross income.

This would continue to protect employees against catastrophic expenses and give them a tax incentive for medical cost-containment. It would also avoid penalizing choice, instituting a regressive tax, or creating an administrative burden for employers.

This kind of approach could also significantly increase tax revenues. Based on a reasonable set of assumptions, additional Federal tax revenues in the neighborhood of $15-25 billion a year could be generated if payments from employer-sponsored medical plans were made taxable up to 5 percent of W-2 income.

If proceeds were made taxable up to only 1 percent of W-2 income, this would still raise $4-6 billion a year -- not an inconsequential sum in view of the fact that the recent tax bill will raise only some $50 billion over three years.

This is just one possible way to carry out what must be a fundamental attribute of tax policy regarding fringe benefits -- it must accommodate individual choice. The tax treatment of benefits provided by employers through a "one-size-fits-all" plan or through a flex plan -- or purchased by an individual outside of any plan -- should be the same.

The issue is the extent of the tax incentives various kinds of fringe benefits deserve -- not the form in which the benefits are provided.

This leads to two other possible approaches that would help preserve the tax base, while avoiding the imposition of a tax penalty on choice.

The first approach is to scale back the incentives for various types of benefits considered less deserving of tax-favored treatment. Do benefits

such as van pooling, elective surgery, and emergency medical treatment all deserve the same level of tax exemption? Should some items lose their tax benefits? Should others have them reduced but not eliminated?

What is required are carefully considered judgments and even-handed assessments of the proper level of incentives in particular cases.

Regardless of the determinations, this approach would promote choice because the form in which the designated benefits are offered would become irrelevant.

The second approach is simply to put a dollar cap on the total value of fringe benefits that can be excluded from an individual's taxable income every year.

Contrary to popular opinion, employers would support a reasonable cap. Corporate management is every bit as interested as Congress in braking the growth of benefits. Research shows that the increased costs of providing more non-cash compensation to employees in the form of benefits does not reduce employers' overall compensation expenditures. The establishment of tax incentives for benefits creates employee expectations and pressure for these benefits. That expectation and pressure is for the employer to provide those benefits in addition to whatever direct compensation the employee felt he was otherwise entitled. While most employers agree it is socially desirable to provide a core of benefit protection to their employees, unlimited tax incentives simply serve to

increase employee expectations for the provision of more and more expensive benefit packages. The implementation of reasonable limits on non-taxable benefits would be well received by many major employers and could be used by those employers as a rationale for benefit cutbacks.

A cap on total benefits would also avoid penalizing choice, again because the form in which benefits are offered would be irrelevant, and also because each individual could select whatever types of benefits he or she most wanted -- all that would matter would be the aggregate value of the benefits.

These are only a few ways in which the underlying tax incentives for benefits could be refocused to protect the tax base without penalizing individual choice. No doubt there are many other viable approaches.

The central issue is the extent of the tax incentives various kinds of benefits deserve and which fiscal realities can accommodate -- not the form in which the benefits are provided.

The tax treatment of benefits provided by employers through either a conventional "one-size-fits-all" plan or a flex plan -- or purchased by an individual outside of any plan -- should be the same. This principle should become a cornerstone of tax policy toward employee benefits.

However, making it a reality will require Congress to grapple with many difficult and controversial benefit issues at the very heart of the present structure of tax incentives.

The fact that this Committee is taking three days to hear testimony on fundamental tax issues affecting employee benefits is a hopeful sign.

Unfortunately, benefits policy has been set in chaotic, patchwork fashion for many years. Critical benefits issues have been addressed almost exclusively in the context of loophole closing and frantic last-minute revenue raising.

Benefits are no longer an arcane subject of interest only to actuaries and consultants. They have long fulfilled important social needs and have contributed significantly to the nation's economic wellbeing over the past generation.

But today, with the groundswell of interest in shaping benefits packages to meet the needs of employees of all kinds -- including young singles, divorced mothers, two-career couples, and older workers -- benefits have become a critical issue for almost every constituency in American society.

More than ever before, employers need a clear, consistent, and unambiguous framework -- a coherent set of tax policies which don't change every year -- to move ahead with to design responsible and effective benefit plans that meet the needs of both labor and management. This tax framework must recognize that benefit flexibility is an idea whose time has come -- and that individual choice must not be restricted in a misguided attempt to protect the tax base.

Box 796 • Douglasville, Ga. 30133 • (404) 942-2343

young
REFINING CORP.

August 1, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219, Dirksen Senate Office Bldg.
Washington, D. C. 20510

RE: Hearings

Dear Mr. DeArment,

Young Refining Corporation and subsidiaries (Laketon Refining Corporation, King Asphalt Products Company, Inc., King Hardware Company, and Gulf Coast Management Corporation) would like to go on record as being in complete opposition to changing the current tax-favored treatment of employer pension benefits, medical welfare benefits and other employee fringe benefits. We particularly are vehemently opposed to any plan that would change these presently privately administered plans to a government administered bureaucracy.

The sucess of American business and labor cooperation has been the result of the ongoing dialogue between management and labor which has resulted in the best-paid, highest-motivated labor force in the world. To remove management's incentive for providing medical and retirement benefits for it's labor force would destroy the uniquely

productive relationship of American business and labor. Further, to intrude yet another government bureaucracy between business and labor would be negative in effect and inefficient in operation.

Simply put, we urge you to remember the old adage, "If it ain't broke, don't fix it".

Very truly yours,

Charles E. Young
Vice-President

cc: Rep. Newt Gingrich
Sen. Sam Nunn
Sen. Mack Mattingly

YWCA Young Women's Christian Association
3420 Park Road Charlotte, NC 28209 (704) 525-5770

July 23, 1984

The Hon. James G. Martin
United States Congress
341 Cannon House Office Bldg.
Washington, DC 20515

Dear Congressman Martin:

We have been informed that Congress and the Administration are very much against tax-free employee benefits and that Congress may move to simplify the tax law by either treating the employer-paid cost of benefits as employee income or by eliminating the deductibility of employer contributions, or both. The Senate Finance Committee will hold hearings on July 26, 27 and 30 on certain aspects of the taxation of so called fringe benefits. We wish you to know that the YWCA of Charlotte, NC opposes any legislation to eliminate tax-favored status for employer contributions to employee benefit plans.

The Charlotte YWCA employs 55 full-time people and we spend an average of $1,517 per year per employee for health, life, disability, dental insurance premiums and other employee benefits. The average employee salary is $10,748 per year. If insurance premiums were treated as income, the impact would be a 25% decrease in take home pay and each employee would pay an additional $400 in Federal and State income taxes. Clearly, the average employee cannot afford this increase in taxes, much less the decrease in available monthly income to meet the cost of food, housing, utilities, etc.

If the employer deductibility for these benefits were also eliminated, many employers would discontinue providing them. Many employees would no longer have coverage because they could not afford it, nor would they be insurable at a reasonable cost outside of a group plan. Furthermore, the total number of people covered by group insurance plans would drop and the cost of insuring those remaining would increase significantly.

Even though the YWCA is a tax-exempt organization, we offer very competitive benefit packages to employees. We strongly believe in quality affordable health care for all people and we want to continue providing our employees with a good health/dental/life plan. We urge you to oppose any legislation which would eliminate favored tax status of employer contributions to employee benefit plans.

Thank you.

Sincerely yours,

Lynne Reyburn

Lynne Reyburn
Executive Director

2

KENNETH N. ZEGART, P.S.C.
801 CHILDREN'S FOUNDATION BUILDING
LOUISVILLE, KENTUCKY 40202
TELEPHONE (502) 583-6334

KENNETH N. ZEGART, M. D.
DOUGLAS O. PEENO, M. D.

PRACTICE LIMITED TO
OBSTETRICS AND GYNECOLOGY

August 8, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

"Submitted as part of the record of the Hearing on Employee Fringe Benefits held on July 26, 27 and 30 by the United States Senate Finance Committee, Subcommittee on Taxation and Debt Management" by Kenneth N. Zegart, President. I feel that the private Employee Benefit Plan is a valuable asset and compliments the Social Security System which at best is faced with a gloomy future. In this way, people will not depend on the Government as much as they have in the past for their retirement plans.

I strongly urge the continuation of such a system as is currently allowed.

Sincerely,

Kenneth N. Zegart, M.D.

KNZ/tgp

MICHIGAN AUTOMOTIVE
PARTS ASSOCIATION
748 N. CEDAR ST
LANSING, MI 48906

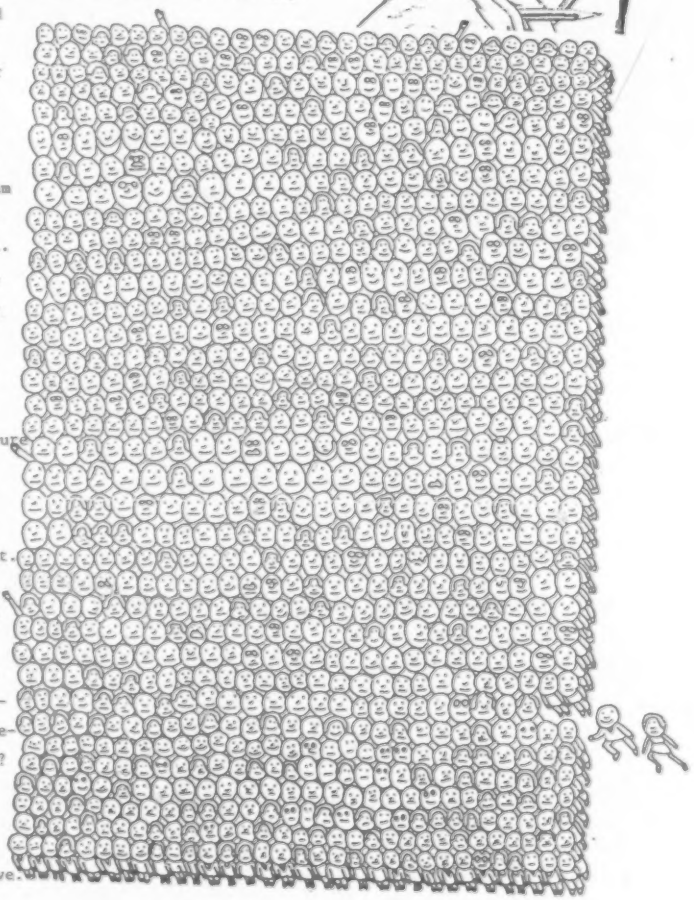
TO: SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
COMMITTEE ON FINANCE 8/1/84

FROM: Frank Koval Inc., Executive Agent, MAPA

We have been alerted to the committee's interest in hearing the pros and cons on having the tax law written to have certain employee benefits tax deductible. We might cite our experience so you can better decide for yourself which way to go.

We have 600 auto parts stores who average 6-7 employees per store. Many of them provide health insurance coverage for their employees and families. Some just for the employee and some share the cost between the employer and employee. We as an association help them to develop the best possible program to suit their needs. This is working well.

What would happen if the deductibility of this fringe were stopped? We are not completely sure.

There would be pressure for our marginal members to look at eliminating, or reducing, the benefit. Is this good? We say no. What happens to the employees? Where do they go? Do they look to the government or go to someone more able to pay? Small businessmen would suffer.

You are urged to examine all of the above.